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Governmental Finance
United States Securities

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NEW YORK, JANUARY, 1919.

An Auspicious Outlook.

THE New Year dawns with fair promise upon the United States. We may well be thankful for all the blessings we enjoy, and have a compassionate and generous spirit toward all the peoples who have suffered the ravages of war or are prostrate under the greater terrors of anarchy and disorder. The joy of the Christmas season has been saddened in many homes of this country, and we have many questions of great importance to deal with, but our losses and problems are small compared with those which distress and perplex the countries of Europe.

The industrial firms and corporations of the country are generally in a strong situation, having reduced bond indebtedness and built up surplus accounts during the last three years of activity. Business houses as a rule have accumulated reserves and the credit situation, although extended, is in good shape. The only unfavorable feature in the situation is the check which is incidental to the change from war conditions to peace conditions. That is inevitable, and the reasons are so apparent that the effect is minimized. Underlying this temporary hesitation there is abundant confidence in the fundamental elements of the situation. The energies of the whole world for four years have been largely devoted to the war, to the neglect of normal development and all avoidable expenditures. The reaction from this must come. Accounts from all over Europe show that supplies of all commodities are depleted and prices high. As ship-room becomes available there is every reason to expect a good outflow of goods, and when the movement gets under way markets here will be stabilized and confidence in the price-level established. Moderate and gradual reductions are to be expected, and in some lines a considerable readjustment has been accomplished, but a return to pre-war price and wage conditions in the near future is very improbable.

A World-Wide Situation.

The general state of credit expansion over the world will sustain, and naturally cause, a higher level of prices than prevailed before the war, and there will not be the same pressure to lower wages and prices in this country that there would be if the level was falling in other countries. It does not follow, of course, that wages and prices at the higher level will yield any better net results to producers and wage-earners than at the old level, or that the new level will be permanent, but business is favored by stable conditions and with all the world subject to the same general influence, changes are likely to be gradual rather than abrupt. If all wages and prices in this country could be brought back at one stroke to the old level, it would doubtless be advantageous to have it done, but it is impossible, and if accomplished there is no probability that they could be held there with the present stock of gold in the country and the existing state of inflation abroad.

Industry in Russia and Germany.

Conditions will not be very favorable to efficient industry on the continent of Europe for a long time. From the Rhine eastward disorganization is general, the discipline and leadership to which the people have been accustomed is gone, the industrial equipment has deteriorated, and politics probably will be the dominant interest for some years to come. In Russia, under the rule of the Bolsheviki, business experience and managerial talent have been discarded; one man is considered as good a business manager as another; indeed, it is objectionable to have any one man exercise more authority than another; everything is supposed to be managed by committees and by popular vote. Just how seriously Germany is infested with these ideas remains to be seen. The signs indicate that they are prevalent and will affect German industry for some time. The present government is the moderate wing of the Socialist party, and it strongly urges that the only salvation for Germany is in hard work and close economy, but admits that for the present the organization is badly demoralized. Germany has been the most aggressive country in world trade in recent years, but this will not be true to the same extent in the future. Even if other conditions were not unfavorable, the cen-

tralized organization is gone, and the republic will not give the paternal favors to large interests.

British Industry.

In England the situation is very different, but wage advances on a large scale are still going on, with the expectation that they will be maintained. Announcement has been made that the railways, which have been operated by the government as a war measure, will be taken over permanently, and since the armistice was signed the basic eight-hour day has been granted to all the employes. The *London Times* states that it is understood that overtime will be at the rate of time and one-quarter. Including this action the wage scale of the railways has been more than doubled since the beginning of the war. A great strike, affecting 200,000 operatives, is now on at Lancashire in the cotton industry, the weavers asking an advance of fifty per cent., and the spinners of forty per cent. Many of the unions are asking for a shorter work-day, in some instances eight hours for five days and four hours on Saturday, while one of the most important organizations, that of the "Engineers' trades," which includes machinists, has declared for a forty-six hour week.

The Government is pledged to the labor organizations to restore all of the union rules and restrictions which were waived in the interest of increased production during the war, but is seeking an agreement under which the wage-earners will obtain higher wages and better working conditions, but continue the war-time efficiency in production. The labor leaders declare in favor of this arrangement, and it is hoped that production costs will not be increased, and eventually may be even lowered, but the effect will probably be to put production costs in England and the United States more nearly on the same level than they have been in the past.

Despite the recommendations of the Cunliffe Committee, referred to last month, that in order to obtain effective control over the foreign exchanges further credit expansion must be vigorously avoided, the Bank of England, in order to encourage subscriptions to the Treasury bond offerings, has announced that the Bank will lend freely for commercial purposes upon the bonds.

All of these signs support the view that wages and prices the world over are not going to decline speedily to the pre-war state.

The Fate of Germany.

Although a state of great confusion exists in Germany, and the authority of the moderate Socialists who are in control is challenged by the radicals, the indications are that the latter will be a small minority in the National Assembly soon to be elected. Their eagerness to seize control of the government before the election and to dominate by armed force, after the manner of the Bolsheviki, shows that as in the case of the latter there is no confidence that the people will support the extreme program.

After the restoration of internal order the most serious question confronting Germany is that of the indemnities which it will be required to pay. No doubt it will be called upon to pay for private and public property destroyed in Belgium, France and Italy, and for merchant ships and cargoes, and the lives of passengers and seamen lost through submarine warfare in violation of the recognized rules of war. Serbia, Greece and Roumania also will presumably present similar claims against Germany and her allies. It is needless to say that the total of these will be a very large bill and when the armistice was under discussion this seemed to be as far as the demands were likely to go. There is nothing in the 14 articles of President Wilson's address to the Congress, which were referred to in the correspondence preliminary to the armistice as the general basis of peace, about indemnities to cover or apply upon the expenditures of the Allied countries in the war. It is true that the armistice itself is practically an unconditional surrender, and that except as the 14 articles were publicly approved by the responsible statesmen of the Allied governments as embodying substantially their views, they are not binding, but we refer to them as evidence that claims for the indemnification of the governments for war expenditures have not the same standing as claims for reparation for wrongs done to civilians or the destruction of property used for civic purposes. There were we believe no official declarations prior to the armistice which specifically called for the reimbursement of governmental expenditures.

Since the armistice went into effect, however, an election campaign has been held in England, which was enough like an election campaign in the United States to be easily recognized, and it has developed that the idea of making Germany pay the cost of the war, or at least pay to the utmost of her ability, is very popular. As a result the proposal has come to the front as the leading feature of the settlement.

Position of Lloyd George.

The Prime Minister of England, David Lloyd George, has a host of admirers in the United States, and we are among them. He has made a great record for dauntless leadership in the war and his prestige is greater than that of any other man in England in this critical time. In his formal announcement to the voters in the campaign he stated that a Committee had been appointed to carefully calculate how much of an indemnity Germany would be able to pay. He has not announced any final conclusion, but his speeches seem to imply that the requirements will be very heavy. In one of them he lays down the doctrine in the following language, which we take from a verbatim report:

Now I come to the second question I mean to talk about, and that is the question of indemnity. (Cheers.) Who is to foot the bill? (A voice—"Germany.") I am again going to talk to you quite frankly about this. By the jurisprudence of every civilized country in the world, in any lawsuit the loser pays. It is not a question of vengeance, it is a question of justice. It means that the judge and the court have decided that one party is in the wrong. He has challenged judgment. By the law of every civilized country in the world the party who is guilty of the wrong pays the costs. (Cheers.) There is absolutely no doubt about the principle. What we hope for in future is that in dealings between nations the same principle shall be established as in dealings between individuals—the same principles of right and wrong. If you do that, it is inevitable that the nation that does the wrong and challenges a lawsuit to determine it must pay the costs. (Cheers.) (A voice—"In full.") Mr. Lloyd George: I am coming to that. Certainly in full, if they have got it. But, if you do not mind, listen to what I have got to say to you right through to the end.

He estimated the total bill of governmental expenditures at $120,000,000,000 and although he did not give it in detail, he apparently used a calculation which included the expenditures of the United States at $18,000,000,000. This is less than the total expenditures of this country will be, but until it was published no public suggestion had ever been made that the United States would expect to be reimbursed for these expenditures. Now that the suggestion has been made, probably there will be plenty to second it. We cannot, however, fail to remember that we have been proclaiming the virtue of not expecting any financial gain from the war. If we take all we can get from the bankrupt, how can the world ever be sure that we would not have taken more if we could have had it?

Of course it is out of the question to collect an indemnity of $120,000,000,000 from Germany, and Lloyd George admitted that. He said:

Before the war it was estimated that the wealth of Germany was between $75,000,000,000 and $100,000,000,000. That is the figure that was given as an estimate. The bill is $120,000,000,000, so that if that estimate was correct—that is, our estimate before the war—it is quite clear that, even if you take the whole of the wealth away—and you cannot do that, because there are 70,000,000 people who have got to work in order to make that wealth available—there would not be enough. * * * You must remember that 5 per cent. on $120,000,000,000 would be $6,000,000,000. I want you to bear these facts in mind as the reason why I have always said we will exact the last penny we can out of Germany up to the limit of her capacity, but I am not going to mislead the public on the question of the capacity.

He added, however, that the Committee which had been studying the subject had come to the conclusion that the wealth of Germany had been underestimated in the past, and that her capacity to pay was greater than had been previously supposed. He summarized his position as follows:

Let me summarize. First, as far as justice is concerned, we have an absolute right to demand the whole cost of the war from Germany. The second point is that we propose to demand the whole cost of the war. (Cheers.) The third point is that when you come to the exacting of it you must exact it in such a way that it does not do more harm to the country that receives it than to the country which is paying it. The fourth point is that the Committee appointed by the British Cabinet believe that it can be done. The fifth point is that the Allies, who are in exactly the same boat as we are, because they have also got a claim to great indemnities, are examining the proposal in conjunction with us. When the report comes it will be presented to the Peace Conference, which will put our demands together, and whatever they are, they must come in front of the German war debt. (Cheers.) You may depend upon it that the first consideration in the minds of the Allies will be the interests of the people upon whom Germany has made war, and not the interests of the German people who have been guilty of this crime against humanity.

A Different View.

Mr. G. N. Barnes, a member of Parliament from Glasgow for the Labor Party, who has been a member of the Coalition Cabinet, took a more moderate view than his Chief, as indicated in his speeches, one of which is reported in the *London Times*, as follows:

There were certain people fond of formulas, such as "No indemnities" and "No annexations." He was not disposed to exact large indemnities, because he did not believe they would ever get them. He believed that if the Germans were fined for causing the war, as they did, the sum exacted from Germany would be such that the Germans would never be able to pay it for three or four generations; and possibly we might do ourselves harm. But he did favor exacting reparation for all the acts done by Germany during the past four years in contravention of international law and usage and against the dictates of humanity. He did not mean only the Kaiser, but the German people. It was one of the most ghastly things of the war, and proved up to the hilt, that the atrocities committed by the submarines, by aerial attacks on defenceless towns, as well as the putting down of hospital ships, had been condoned, and sometimes applauded by the German people. They would, therefore, deal not only with the Kaiser caste, according to their deserts. If he were sent to the Peace Conference he would exert all his influence to exact from the German people ton for ton of every ship sunk by them, and compensation, if it could be called such for the widows and dependents of all men lost during the war through submarine warfare, and compensation for damage done to our coasts, and for the sinking of hospital ships. He would exact to the uttermost farthing, reparation for all Germany had done against the ordinary rules of warfare.

The French Indemnity.

The war of 1870-71 between France and Germany was fought entirely in France, and the indemnity exacted by Germany, $1,000,000,000, much exceeded the total war expenditures of that country. Ample precedent exists, therefore, for heavy demands by France and her allies, but there are other things to be considered besides precedent. The French people raised the money for the indemnity for the most part by selling foreign securities which they owned. These were sold in London, Berlin, Amsterdam and other foreign markets and the credits so created were transferred by the French government to the German government. The indemnity was cleared up and done with in short order. French investors replaced these securities with their own government issues, the transaction being similar to that by which the British government financed its purchases in the United States before this country entered the war. To the extent that Germany possesses foreign securities which can be sold in international markets she would be able to liquidate her obligations in this manner. Dr. Karl Helfferich in his book issued in 1913 by the Deutsche Bank estimated Germany's capital investments of all kinds abroad at 20,000,000,000 marks, or about $5,000,000,000. The situation will be different from that under which the French indemnity was raised in that the French people came forward willingly to dispose of their foreign securities and buy their own government issues, whereas the German owners will do all they can to retain their foreign holdings, directly and indirectly. Finally, the difficulties of making indemnity payments will become much more serious as the sum to be covered is increased above Germany's foreign holdings.

Some of the Difficulties.

The question of the ability of a people to pay a great indemnity, and of the effect of such payments not only upon themselves but upon the recipients and upon the trade of the world, is an economic question which is not well suited to be determined in the heat of a political campaign, coming at the close of a bitter and costly war. The passionate feeling of the voting public at such a time may not be a safe guide, but British public opinion is as formidable to public men appealing for support as the British armies are to their enemies. There is no doubt that popular sentiment in England is for making Germany pay to the limit, and the Prime Minister was seeking endorsement and an extension of power. We have known skillful campaigners in this country who seemed to go the full length of agreement with popular opinion as to what ought to be done "if practicable," but were able to keep themselves sufficiently free from definite commitments to be very practical at last in the management of the business. Lloyd George in his speech proceeded to suggest some difficulties which he could see would have to be encountered in attempting to collect an indemnity over a long period of years. He said:

> There are only two conditions which, if I were responsible, I should make, and here the Committee agree with me. There must not be an army of occupation, a large army of occupation, kept in Germany indefinitely in order to hold the country down. (Hear, hear.) That simply means keeping hundreds of thousands of young men from this country occupying Germany, maybe for a generation, maybe for more, withdrawing them from industry, whilst at the same time you would have to keep an Army in order to maintain your Empire. That would be bad business. Besides, it would simply provoke fresh conflict, fresh wars, and instead of coming to an end of war we should be simply manufacturing fresh wars.
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> The second condition which the Government would make, and which the Committee agree with, is that the interest on the money must not be paid by dumping sweated goods in this country (cheers), and you must remember, if the $6,000,000,000 had to be paid in sweated goods it would be something which would be far more than anything we have ever experienced. I should say the balance of trade between Germany and this country before the war was hardly $100,000,000 or $150,000,000. If you had to take hundreds of millions sterling of goods from Germany, whether it were coal, or ships, or cotton, or what not, well, then greater injury would be inflicted upon the industries of this country than anything you could possibly hope to gain by merely exacting an indemnity.

The second paragraph opens up an economic question of great complexity and importance, about which much more might be said. After allowing for the property-holdings which her citizens now have in foreign countries, the only way Germany can pay an indemnity is in goods, and for a large indemnity the payments would have to run over a long period of years. Her people would have to produce and export, and turn the foreign credits thus credited over to apply on the obligations. Mr. Lloyd George is prompt to say that England would not want German goods coming into her markets in any such quantities, and this raises the question, if England whose public policy is free trade and who would be the chief creditor, would not want them, what might be expected of the countries which have always adhered to the policy of protecting their industries? What countries would be willing to receive them for the sake of helping England to collect her share? The fact is that the exportation of goods by Germany on any such scale, if she could make them, would demoralize the trade of the world. The business of the world is organized on a reciprocal basis. It is customary to give and take, and so extraordinary to get something for nothing that the regular order of things would be seriously disturbed. It is true that if it was an income which might be counted to last forever, the creditor countries might indemnify or buy up the home industries which were injured and rely upon Germany thereafter to supply certain goods for nothing, but that idea has a suggestion of artificiality and impermanence about it which makes it hardly practical.

It has been suggested that the German government might turn over the railways and other state property. If this were done and the surplus earnings were invested in Germany that country would suffer nothing and the creditors would be gaining nothing until they attempted to withdraw the income. This could only be done by converting it into transportable products, which would revive the problem as we have stated it. There is no way of really paying an indemnity but by creating an excess of exports over imports.

German Wealth and Income.

Dr. Helfferich's computation of German wealth and income made shortly before the war estimated the total net income of the German people at 6,000,000,000 to 7,000,000,000 marks or $1,500,000,000 to $1,750,000,000, including the increment in land values. This, or some such sum, represents the rate of annual gain, or accumulation of wealth, in Germany at that time. This was the capital fund, available for investment, for the development and expansion of industry and the improvement of the equipment. These are the purposes to which wealth accumulations everywhere are devoted.

Accepting these figures, if the indemnity was fixed at $35,000,000,000 instead of $120,000,000,000, and the interest rate was 5 per cent. the annual interest charge would absorb the entire net income of Germany, as estimated before the war, leaving nothing for improvement and growth. These are times of rapid changes in industry and the country which does not have ready capital with which to improve its equipment and finance its trade cannot expect to keep the pace. It would soon fall behind and be unable to compete in the markets of the world and therefore unable to create the foreign credits for the indemnity payments. Its trade would shrink until it might find difficulty in exporting enough to pay for its necessary imports.

It must be borne in mind that taxation for an indemnity to be paid abroad, for which no return is received, is in a different category from taxation the proceeds of which are disbursed within the country, as upon the domestic debt. In the latter case the capital simply circulates within the country and remains available for the use of domestic industry; in the former case it is sent out of the country and there is no compensating flow inward. Not a dollar of capital from outside will voluntarily enter Germany to be subject to the heavy taxation required by a great indemnity.

If the annual payment was cut down to one-half the country's net income, whatever that may be, what would still be the effect upon individual initiative and enterprise? This subject, of the effect of heavy taxation upon enterprise and development, has been very much under discussion in the United States and Great Britain in the last two years. It has been generally agreed among business men that such taxation has a doubly repressive influence; first, in that there is less capital available for new undertakings; and, second, that the risks of new undertakings are too great for the remaining compensation. What would be the industrial future of a country placed permanently under a much greater handicap in this respect than its competitors? It is not necessary to consider it out of solicitude for Germany, but it is necessary to consider it with relation to Germany's ability to sell goods in the markets of the world for the payment of the indemnity.

Unless there is sufficient reward to the German people to induce them to labor and save and invest, in the future as in the past, all calculations as to what she can be made to pay will be worthless. No way has ever been found to get people to work effectively except by paying them—by offering inducements which appeal to them. There is something familiarly known as lying down on the job. Slavery never has paid as a business proposition. Steps have been taken to prevent some species of property from being transferred from Germany, but it is scarcely practicable to prevent people from leaving Germany to make their homes elsewhere, and they are likely to go if the prospects for their own future and that of their children are more promising in other lands. The leaders, the men who carry large earning capacity under their hats, would go, and what would the remainder do with such a situation?

Mutual Interests.

In short, if the Allies put conditions upon Germany which compel her to fall behind other countries in industrial efficiency, or to stand still while others advance, and which deaden the ambitions of the people, the effect will be to dry up the resources of the country. It may appear to some in the heat of the hour that this would be to the advantage of other countries and that the German people deserve the fate after the terrible calamity they have brought upon the world.

As to the first proposition, would the world be better off economically by suppressing or handicapping any one of the great nations? Although competitors long to be rid of each other, is not the world richer and its progress more rapid by reason of the contributions of every country to the common fund of knowledge and wealth? Would the world be better off if Germany was uninhabited, an empty territory with a tight fence around it? Would it be better off if Germany was inhabited, but isolated, with no commerce crossing its borders? Would it suffer any loss if the latter state was modified to the extent of allowing Germany to pass $1,000,000 worth of her products out through the fence in exchange for $1,000,000 worth of the products of other countries, the exchanges being voluntary on both sides? Would any harm result from allowing such voluntary exchanges to be gradually increased to $1,000,000,000 on each side? Or to $2,000,000,000 or $2,500,000,000 on each side, which is about what they were when the war began? For the five years ending with 1912, Germany's exports according to the *Statesman's Year Book* were $1,896,461,350 and her imports, $2,329,740,000, indicating that she bought $433,378,650, or an average of $86,000,000 per year, more than she sold. The difference presumably represents earnings of her merchant fleet, income on foreign investments, etc.

On the whole, the fact that Germany is a competitor in foreign markets seems to be counterbalanced by the fact that she is a buyer in the same markets. If her exports fall off her imports will likewise fall off. In the long run and in the final analysis no country does more than supply its own wants, which can be done after a fashion by living within itself, or more advantageously by certain exchanges. There is every presumption of mutual gains in exchanges voluntarily made and every country has its peculiar genius and means of rendering service to the world community. If these are not economic truths there is no science of political economy.

Permanent Peace.

Undoubtedly the Allies are justified in taking ample steps to make it impossible that Germany should repeat this desperate adventure, but nobody who understands the economic plight of Germany today, and the changes which are taking place in Europe, has any real fears of her repeating it. No nation has ever suffered such total defeat and shipwreck.

And this being true there remain the other considerations which evidently are not absent from the Prime Minister's mind, to wit, the avoidance of policies which would provoke lasting resentment and perhaps future wars. It is true that the people of Germany supported the Government in the war, but there are degrees of responsibility. It is a familiar fact that the great body of the German people have had little to do in making the policies of the Government, and the outbreak of the war was almost as great a surprise to them as to the rest of the world. Mr. Lloyd George in this same speech in promising that England would abolish conscription and urging that the Peace Conference put an end to conscription in Europe, placed the responsibility for the war upon standing armies and the system of conscription. He said:

> It was the existence of conscript Armies on the Continent that inevitably rushed the world into war. You cannot have these great military machines, with their power, with their splendor, with their clatter, and with the sort of feeling that they give to the men behind them that they are irresistible, without tempting the men at the head of them to try their luck with those machines.
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> It is inevitable in any walk of life, great or small. Take football, if you like. (Hear, hear.) That's right. There's one who has felt it. (Laughter.) If you have got a team practising on the village green, they feel perhaps that they are getting on, they feel they are doing well, they gradually feel there is nothing like them, and they could beat any other team that ever came near the green. So they challenge the next village. It does not always come off. (Laughter.) And some of us play golf. You have got a nice new bag of clubs; you fit up a little putting green somewhere in the garden; you begin to practise putting the approaches. You think you are doing magnificently; you feel you can beat your next door neighbor; and off you go to fight him in a similar way. That is an indication of the kind of thing that is going on with the great Armies.

The German people had been educated in the belief that there was constant danger of attack from foreign enemies, and they trusted their Government with the army. They are not blameless, but it is impossible to hold all of the people of any country equally responsible for governmental policies, nor is it possible to deal with 70,000,000 of people over a long period of years without taking account of their understanding and viewpoint.

Source of Antagonisms.

The antagonisms and conflicts which develop between nations are much like those which exist between individuals and classes. If there are almost hopeless misunderstandings and almost implacable hatreds between groups of people who live in the same country, or the same small community, it is not strange that there should be misunderstanding and suspicion between the inhabitants of different countries. The whole world needs enlightenment and the ability which enables one man to understand another man's view. There is never any reconcilement or basis for peace until such understanding is reached. A belief which men honestly hold and act upon is as real and definite a force to be reckoned with as any in the world. Lloyd George knows this from his own experience with the labor organizations of Great Britain in the past four years. If peace is to be maintained in the world some regard must be paid not alone to facts, but to the prejudices, misconceptions and ignorance of men, in order to remove them. They are not removed by punishment, and least of all by anything like the continuous oppression of a nation, which bears heavily upon innocent and guilty alike, and shuts out hope for even the children of this and future generations.

Long-continued indemnity payments, after all the parties to the original conflict had passed away, would not be conducive to good feeling but afford a constant motive for disturbing the status quo.

Germany tore the provinces of Alsace and Lorraine from France and bludgeoned her for $1,000,000,000, and from that time lived in expectancy that France would get even at the first opportunity. The annual addition to Germany's military budget which this policy made necessary took all of the profit out of the enterprise.

No amount of money as indemnity can be measured in value against a policy which makes for peace, for the real cost of the war is not in money but in human suffering. An indemnity cannot bring back the dead or compensate for the anguish of this war, and the best policy for all the victorious countries now is in looking to the future rather than to the past.

Much is said of the necessity for harsh punishment as a warning against such crimes in the future. This theory has dominated penalogy in the past, but the modern idea is getting away from it and attempting to reclaim the criminal and change his mental attitude toward society.

The people of Germany have been taught that other nations were jealous of them and plotted their ruin, and that view will rather be confirmed than dissipated by a policy which rigidly prevents their development.

The Civil War in this country wrought up the passions of both sides, and the country paid a fearful price for the inability of the people of the two sections to understand each other. Happily the chasm has been closed, and complete reconciliation effected, and the world may well note that every act of leniency and consideration on the part of the victors aided in that reconcilation, and every act that was construed to be punishment delayed it. Great Britain has had her own happy experience in the reconciliation of the Transvaal. The Boers have fought in this war for England because an understanding had been reached. The minds of the two peoples had met and enmity disappeared. All experience shows that this is the way to permanent peace.

There is no more appropriate place than in this connection for the Charles Lamb epigram repeated by President Wilson in one of his London speeches. "I ca-can't hate a man I know."

The British Election.

The votes cast at the recent British parliamentary election were not counted until December 28th, when the result proved to be an over-

whelming victory for the Coalition Ministry headed by Mr. Lloyd George. A singular feature of it is that although the Prime Minister has been a member of the Liberal party all his political life a majority of his supporters in the new Parliament will be Unionists or Conservatives. This is due to the split in the Liberal party, which has caused the defeat of its leader, Mr. Asquith, and most of his chief supporters. This wing of the Liberal party, although it did not object to the main features of the Coalition program as announced, was opposed to the extension of Coalition government beyond the war period, objected to an election at the present time, and insisted that the regular policies of the Liberal party were likely to suffer by the presence of so many Conservatives in the government. They objected to committing themselves in advance to policies that might be adopted by such a combination, and undoubtedly one of their fears was that the policy of free trade might be modified. Their policy seems to have been too negative to suit the aggressive temper of the British people at this time.

The outstanding feature of the campaign was the general agreement of all parties upon an effort to prevent industry from lapsing back into the old ruts, and by increasing production to bring about better social conditions. The Coalition Cabinet is pledged to important undertakings to promote industrial efficiency and the social welfare to an extent heretofore considered beyond the scope of governmental activities. Some of the members of the Cabinet have opposed every departure of this kind in the past, and in the campaign outspoken objection was made to them, but Lloyd George stoutly maintained that they could be relied upon to support the program. What he says upon this point is not only interesting as showing the state of things in England, but is suggestive of how nations who have been antagonists may get together. In the same speech already quoted from, he said:

> I have found men who belong to a different party from my own, who have been taught different principles from those I have been brought up in, men I have opposed all my life—I found I was able to work side by side with them, sitting round the same table, working for the same end. Am I to say to them, "Now this victory has been won, we cannot work together for the old country"? Why should I say it? I don't believe it. (A voice—"Stick together," and cheers.) I believe we can work together for the country for years to come.
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> But they say, "They don't mean it. We don't trust them. Look at the men you have got round you. They say now they will go in for this great programme. We don't believe them." I have fought those men all my life, and I know those men better than their critics, and they know me, too. (Laughter and cheers.) When they did not support a policy, they said they would not. When they say that they will support a policy I believe them as men of honor, and I am going to believe them until I find that I am deceived. I do not believe it. I do know perfectly well that they are just as anxious as any Liberal or Labor man, or whatever his color may be, to work for these great social reforms which, they are as convinced as any of us, are necessary for this country. (A voice—"The change is sudden.") No, it is not. Five years is not sudden, and five years such as we have gone through—why, it's centuries! You ask these lads who have gone through it (pointing to a row of wounded soldiers). They will tell you (loud cheers)—passing in a few hours through the agony of a lifetime. Do you mean to say that this terrible war, that has shaken everybody, that has come to every home, leaves everybody exactly where he was before the war? (Cries of "No.") It shows that a man who talks like that does not understand the elements of human nature. (Cheers.) Besides, he does not believe in his fellow-men. I do.

War Scale Production.

The accomplishments of war time seem to have opened the eyes of all classes to the possibility of better conditions. The address of the Prime Minister, while breathing throughout a most sympathetic spirit toward social reforms, and declaring for various measures to be undertaken by the Government for social alleviation, contains nothing that is threatening to property interests, but on the contrary gives just recognition to their indispensable part in social progress. The address says:

> You cannot have improved wages and improved conditions of labor all round unless you manage to increase production. The war has demonstrated that this can be done by improved organization. I had a good deal of experience of it at the Ministry of Munitions, where it was my duty to see that the output of the engineering shops was increased, in spite of the fact that there was less labor available for the purpose, owing to the numbers of young men who had at the beginning of the recruiting campaign gone to the front. By improved organization, by stopping waste, by improved machinery, by the suspension of the old restrictions on output, the output of the engineering shops was increased enormously. The men and women had much better wages than they had ever been paid, and the State benefited. The experience of the munition shops has been the experience almost all round. In spite of the fact that over 6,000,000 of young men have been drawn into the army and navy, the output over the whole field of industry has been increased. Now we have got millions back. There are gigantic arrears to make up in this country in every department of manufacture.
>
> There is one condition for the success of all efforts to increase the output of this country—confidence. Bolshevism is the poison of production; Russia proves that. Russia will not begin building up a productive system until Bolshevism has worked itself out. Meanwhile there will be great suffering and penury throughout the land, and all classes will suffer alike. You must give confidence to all classes, confidence to those who have brains, to those who have capital, and to those with hearts and hands to work. I say to labor, you shall have justice; you shall have fair treatment, a fair share of the amenities of life, and your children shall have equal opportunities with the children of the rich. To capital I say: You shall not be plundered or penalized; do your duty by those who work for you, and the future is free for all the enterprise or audacity you can give us. But there must be an equal justice. Labor must have happiness in its heart. We'll put up with no sweating. Labor is to have its just reward. And when the whole nation sees that wealth lies in production, that production can be enormously increased, with higher wages and shorter hours, and when the classes feel confidence in each other, and trust each other, there will be abundance to requite the toil and to gladden the hearts of all. We can change the whole face of existence.

Housing Program.

The address states that an inquiry made by the Government into housing conditions has revealed that at least 400,000 new houses ought to be built at once in England and Wales, and that this number would not take the place of all the slum dwellings which are not fit for human habitations. He says that neither private enterprise nor the local municipalities, nor both together can deal adequately with the housing situation, that the matter is vital to health and welfare of the people, and that the general Government must take it up. Lloyd George is at his best in dealing with this subject, and reveals some of the power that has made him the greatest popular leader of his time. In one of his speeches he said:

> What is the first thing the great war has shown us? The appalling waste of human material in this country. There is hardly any material placed by Providence in this country which is so much wasted as human life and human strength and human intellect—the most precious and irreplaceable material of all. I have previously said something about the figures of the recruiting officers. Those who were in charge of recruiting came to the conclusion that, if the people of this country had lived under proper conditions, were properly fed and housed, and lived under healthy conditions—had lived their lives in their full vigor—you could have had a million more men avail-

able and fit to put into the army. That is a very appalling figure, and it is not merely that. When you have not lost life you have depressed the vitality of life. There are millions who are below par. You cannot keep even animals in their full vigor unless you give them good conditions. You cannot do it with men and women, and you cannot bring up children under bad conditions. There are millions of men's lives which have been lost as a result of the war, but there are millions more of maimed lives in the sense of undermined constitutions through atrocious social conditions that you have got in consequence of the whole of the terrors of this great war. You must put that right (Cheers.) Put it at its lowest—all trade, commerce, and industry, they all suffer through it. A vigorous community, strong, healthy men and women, is more valuable even from the commercial and industrial point of view than a community which is below par in consequence of bad conditions. Treat it if you like not as a human proposition, but as a business proposition. It is good business to see that the men, the women, and the children are brought up and sustained under conditions that will give strength and vigor to their frames, more penetration and endurance to their intelligence, and more spirit and heart than ever to face the problems of life, which will always be problems that will require fighting right from the cradle to the tomb. That is the first problem. One of the ways of dealing with that is, of course, to deal with the housing conditions. Slums are not fit homes for the men who have won this war or for their children. They are not fit nurseries for the children who are to make an Imperial race, and there must be no patching up. This problem has got to be undertaken in a way never undertaken before, as a great national charge and duty.

Agriculture and Power Development.

The Prime Minister told of what had been done under the spur of the submarine menace to increase the production of the lands of United Kingdom. He said:

In spite of the reduced labor we increased the area of cultivation in Great Britain and Ireland by four million acres. We brought the landlords in, and the farmers in, and the laborers in, and everybody who was concerned with the cultivation of the land. We got them all to work together for that purpose, and in two years, with reduced labor, we brought back the cultivation of England to where it was 40 or 50 years ago. If you can do that with reduced labor, what can you do when the men are back on the land, and when you have more time to work out your plan? * * * Give back the people, as many as you can, to the cultivation of the soil. But it must be done systematically. It must be done intelligently. We must sweep aside prejudices. The difficulty, believe me, is not with interests, it is with prejudice. And that is equally true in every business. People talk about the vested interests. It is not the vested interests I am afraid of, it is vested prejudices. (Cheers.) Sweep these away and the State can easily deal with interests. (Cheers.) You must not take any man's property away. You cannot build a great State on dishonesty. You are bound to come to grief if you attempt it.

He proposes state aid to establish ex-soldiers on land, and state appropriations for the purchase, drainage and improvement of lands, to be sold to settlers.

Another important undertaking in view is that of constructing central power stations at eligible points over the country, for the generation of electricity by large units, which has been demonstrated to be much more economical than by small individual plants. Here Lloyd George finds play also for his hopes for social improvement. He says:

One of the most important things the Government has in mind is the utilization of our great mineral resources for the production of electrical power on a great scale. This will enable rural industries to be created so that workmen should find remunerative employment under conditions where they can also have a little bit of land for cultivation, and where they can bring up their children in the healthier atmosphere of the country. A great electrical power scheme would also assist in cheapening and increasing the efficiency of our town industries, so as to increase the output, diminish the cost, and thus enable all classes interested in production to benefit.

Education, forestry, aid in industrial research, a public health campaign, support for key industries and various other purposes of similar character are included in the program.

The reasoning of Lloyd George upon general principles is unquestionably sound, and the only question is as to the readiness of the great body of the people to respond to his hopeful and splendid appeal. If they get the vision it must have some effect, but how fast will the old habit of suspicion and antagonism be overcome? As Lloyd George says nothing can be gained by merely establishing artificial conditions; higher wages and shorter hours are the natural and proper accompaniments of increased output; they should and must go together.

National City Branches.

Seven new branches of this Bank were opened last month in foreign countries, in the following named cities: Santiago de Chile; Rosario and a second branch in Buenos Aires, Argentina; Cardenas, Cienfuegas, Mantanzas and Sagua la Grande, all important cities of Cuba. Including the 24 branches of the International Banking Corporation, the Bank now has 45 foreign branches, and the combined resources of the home and foreign offices at the beginning of the new year are in excess of $1,000,000,000.

The Bank is extending its foreign service as rapidly as competent staffs can be obtained. It has been determined to establish a considerable number of agencies in foreign cities which are important for their trade possibilities, these offices to occupy their own quarters and be under the management of men sent out from the home office. These offices are to gather and disseminate trade information, reporting opportunities for the introduction of American products, giving advice as to the products of the country in which they are located, and providing general information as to markets, credits and trade conditions. They will serve American business in every way in their power and be at the service of all American travelers who may visit the cities in which they are located. In short they will perform the functions of the trade departments of our branch banks in important cities where we are not yet ready to establish full banking service.

Distribution of Wealth.

The estates left by several very wealthy persons have been mentioned in the newspapers recently, and it is especially interesting in these times, when the world is very much agitated upon the subject of wealth distribution to note the final distribution of these large fortunes. One of them is the estate of Mrs. Russell Sage, who inherited a large fortune from her husband. The latter was a very hard-working, close-living, able business man, who spent so little on himself that his thriftiness was a popular joke. He was an unpopular character with the public, and just what motive actuated him in his accumulations we do not know, but we do know what has finally become of most of

his money. It has gone to educational and benevolent organizations. It is interesting to allow the mind to dwell upon the figure of Russell Sage, toiling without respite or personal indulgence to amass a fortune and then read the list of institutions which, as it turns out, he really put in his life working for. An incomplete list at hand names the following:

An endowment fund of $10,000,000 to the Russell Sage Foundation, the income to be used for the betterment of social and living conditions.

To the Russell Sage Institute of Pathology, an endowment fund of $300,000.

For the Association for Relief of Respectable Aged Indigent Females, an addition to its building on 104th Street, $25,000.

Adirondack Cottage Sanitarium, $25,000.

Working Girls' Home on East 12th Street, $25,000.

To the Young Men's Christian Association, for a new building for the International Committee, on 28th Street, New York, $350,000.

For addition to Y. M. C. A. building at Brooklyn Navy Yard, about $340,000. For building at Fort McKinley, Philippines, $25,000; for Long Island R. R. branch, new building at Long Island City, $100,000; for new building at Fort Slocum, $50,000.

Rensselaer Polytechnic Institute, Troy, $1,000,000.

Troy Female Seminary (Emma Willard School), $1,000,000.

Harvard University, a new dormitory.

Yale University, the Hillhouse property, consisting of thirty acres, at a cost of about $650,000. This constitutes what is now known as the Pierson-Sage Campus.

Princeton University, dormitories and tower.

New York University, for the purchase of additional land, about $300,000.

Northfield Seminary, a memorial chapel.

Gifts to Syracuse University, Idaho Industrial Institute, Lincoln University, Girls' School at Constantinople, and the Berry School of Rome, Ga.

Another of these estates is that of Joseph Raphael de Lamar, who died recently, a resident of New York City. He was a native of Holland and as a boy ran away from home and and struck out into the world as a seaman before the mast. He came to this country penniless, but amassed a large fortune, chiefly in mining operations, although he was successful in many lines of investment. He bequeathed $10,000,000 to be divided between the medical schools of Columbia, Harvard and Johns Hopkins Universities, the object being set forth in the following clause of the will:

For the study and teaching of the origin of human disease and the prevention thereof; for the study and teaching of dietetics and of the effect of different food and diets on the human system, and how to conserve health by proper food and diet, and in connection with the foregoing purposes to establish and maintain fellowships, instructorships, scholarships and professorships; to construct, maintain and equip laboratories, clinics, dispensaries and other places for such study and research and to provide proper housing of same; to publish and disseminate the results of such study and research, not only in scientific journals and for physicians and scientists, but also, and this I especially enjoin on the legatees, by popular publications, public lectures and other appropriate methods to give to the people of the United States generally the knowledge concerning the prevention of sickness and disease, and also concerning the conservation of health by proper food and diet.

Another of the large estates left to public purposes is that of Alexander McKay, inventor of shoe-making machinery. He died some years ago, leaving the bulk of his wealth to Harvard University for the founding of an engineering school, but owing to litigation to obtain an interpretation of the will the installation of the school was delayed. Public notice has now been given that it is ready to receive students. The endowment is approximately $25,000,000.

These three announcements, made within the last few weeks, indicate the destination of an important share of the wealth being accumulated in American business. This is what becomes of some of the private profits which the Bolsheviki and their milder prototypes are so eager to confiscate that they ignorantly dry up the springs of wealth at their source.

Services of Wealth in Business.

It would be a great mistake, however, to think that the public gained no benefits from the careers of these men except through these gifts. The largest benefits resulted directly from their activities while they were accumulating their fortunes. They were organizers and managers of business, their genius and the capital under their command gave employment to labor and increased the production of commodities or services for the public use. The McKay invention helped to make shoes cheaper for the multitude while shoemakers receive higher pay than under the old hand method.

Henry Ford, after a disagreeable personal experience recently at a public meeting where money was being raised for charitable purposes, was quoted as declaring that he was "off on charity for good," meaning that he thought it was better to provide work for people than to give them money. While he probably will not adhere religiously to his ban on charity, he is right on the main proposition. It is better to provide work which not only enables a man to give an honest equivalent for what he receives but is helpful to the community, than to give charity. All of these men did this in their active lives, and the fortunes which are turned over to public institutions at their death, to carry out plans which they personally planned are still invested in useful enterprises. In the case of endowments it is the income which is devoted to the designated purposes.

These gifts are for educational purposes. Like so many more, continually announced, they are largely for research, to increase the stock of technical and scientific knowledge for the good of all. The earnings and profits which are constantly being added to industrial capital, although not formally dedicated to the public, are actually working for it in the same way. The end in view in every instance is to increase production for the public market, and to cheapen the cost of products as compared with the wages of labor. Where the investment is made by bequest or gift the separation from the investor is evident; but equally beneficent work may be going on with the investor alive and personally managing his capital in profitable business.

Foreign Loans.

Before his retirement from the Treasury, Secretary McAdoo presented a request to the Com-

mittee on Appropriations of the House of Representatives, asking for authority to make loans beyond his present authority, aggregating $1,500,000,000 to foreign countries, for the purpose of aiding foreign governments in procuring merchandise, supplies, and we assume, establishing general credits to support the foreign exchange situation in this country. The House Committee has taken no favorable action upon the proposal and the newspapers report that opposition has been manifested.

It is highly important that the position of the United States in the foreign exchanges shall be more generally understood than it is, as it is certain to have a direct effect upon all our foreign trade. At the moment a number of the exchanges are still against this country, due to special and temporary courses, but it is certain that as soon as trade conditions approach a normal state again the situation will be generally reversed.

Our Creditor Position.

We have referred before to the fundamental change which has come over our financial relations, between the United States and the rest of the world, and the trade difficulties which it will present. Briefly the situation is that prior to the war we had an average annual trade balance in our favor on merchandise account of about $500,000,000 per year, which was practically offset by interest and dividend payments made upon American securities held abroad, by foreign shipping charges against our commerce, by the expenditures of tourists abroad, remittances to relatives in other countries, etc. The war has made a great change in this account. We have now bought back probably the greater part of the American securities that were held abroad, we expect to carry much more of our freight in our own ships and we have loaned $10,000,000,000 or more to foreign governments and corporations.

The net result of all this is that there will be a balance of payments in our favor of probably not less than $500,000,000 per year. How do we expect to take payment? This is not a question of the solvency of our debtors, but simply how will they find the means to make payments in this country? Ordinarily international trade nearly settles itself, or if it is one-sided bankers borrow temporarily to settle the differences or ship gold for that purpose, but the war has thrown trade badly out of balance, and governments have put embargoes upon the movements of gold, so that exchange rates have shown extraordinary fluctuations.

It is evident that our foreign debtors cannot make their payments to this country in gold because not enough gold is produced in the world outside of this country to do it; furthermore we do not want any part of it paid in gold because the effect would be to raise the level of prices in this country, which are high enough already, and the effect would be disadvantageous to our export trade. Neither do we want to take payment by the importation of foreign goods, as if taken in any such quantities they would seriously interfere with our home industries. The talk in Congress is that customs duties will be raised by the next Congress, with a view to reducing importations. Moreover, our people are ambitious to increase their exports, which would increase the trade balance in our favor.

Must Lend Abroad.

This is a very real situation, and this country must meet it intelligently or we will find exchange rates running against us everywhere in the world, and so heavily that they will put a check upon exports. At the present time for instance there is a premium in Paris upon New York drafts of about 5 per cent. which means that a French importer buying goods in the United States must not only pay American prices for the goods, plus the costs of shipment, but 5 per cent. more to obtain the means of remittance. This is because the trade is so one-sided that it is difficult to find the means of payment. In Italy the cost of obtaining a draft on New York is about 10 per cent. This is a very heavy handicap upon sales in that country, and it may become higher. The exchange situation between New York and London has been supported by loans; if they cease a serious disturbance is probable.

The Canadian Situation.

Exchange charges are a good deal of a mystery to the general public, and perhaps our relations with Canada may be more easily understood. For the fiscal year ended June 30, 1918, the United States exported to Canada $778,510,000 worth of merchandise, and received from Canada $321,000,000 worth of merchandise. Here was a balance of $457,500,000 for Canada to pay. How could the settlement be made?. Ordinarily the Canadian banks would forward gold, but the trade was so one-sided that the drain on the reserves of Canada would be too great, and the government forbade gold exports —just what the United States government has done. How now could the balances be settled? It became necessary to sell securities or borrow in this market. Exchange rates in Canada on New York began to rise, which meant that parties having payments to make in the United States would give a premium for credits in New York. That created an inducement for somebody to sell securities or borrow money here for the purpose of placing exchange at their disposal. The rate for most of the past year has been around 2 per cent. That has operated as a premium upon sales of merchandise, or securities from Canada to the United States, and as a penalty upon sales from the United States to Canada, and illustrates the injurious effects of such a situation upon our foreign trade. This premium might have been higher

but for the fact that the Canadian government put an embargo upon all merchandise classed as luxuries.

National Credit Not Involved.

That this situation is not due to low national credit is shown by the fact that in our relations with some countries we are in the debtor position ourselves. For example, we owe Argentina a heavy balance, and because our Government does not permit the shipment of gold a draft on Argentina costs a premium of 7 per cent. All our importations from that country, which consist mainly of wool and hides, are subject to this charge. It happens that we must have the goods, and so we stand the charge, but in normal times and in goods which are subject to competitive conditions such a charge would either divert business to other countries or would have to be absorbed by the seller. We cannot hope to build up an export business against such charges, but they are inevitable unless we allow our foreign customers to pay by means of securities or loans.

The Argentina Loan.

The Argentina rate would be higher, but the Government at Washington succeeded in making a limited arrangement with the Argentine government by which American importers having payments to make in Argentina might make the payments into the Federal Reserve Bank of New York for the credit of the Argentina government, this deposit account to stand until the end of the war and be liquidated then in gold, if desired by Argentina. The Argentina Congress passed an emergency act authorizing this and similar deposits, or earmarked gold, in other countries to be included in the reserves against currency issues in Argentina. The Argentine government is thus enabled to accomplish the settlement of the accounts against which the deposits have been made, and before the time comes for transferring the gold under the terms of the agreement it may be that exports from the United States will have directly settled the account in whole or in part, or that credits will be shifted from London or elsewhere. Meantime, about $90,000,000 has been paid into the Federal Reserve Bank of New York on this account, and much more would be if the arrangement was unrestricted in amount.

Arrangements With Spain and Peru.

A group of American bankers, with the assistance of the State Department at Washington, negotiated a credit in Spain amounting to $50,000,000 of which, however, only $15,000,000 was used, for the same purpose. And with the last week announcement has been made that the State Department has succeeded in effecting an arrangement with the Peruvian government which is almost a duplicate of the arrangement already described with Argentina, except that it is limited to $15,000,000. These negotiations show the difficulties attending exchange transactions in an unbalanced state of trade. In these cases the loans are to aid the United States in paying its debts, and the arrangements are temporary and more easily made because the situation is temporary. But the situation in favor of the United States, which is in prospect has all the appearance of being permanent, and will therefore be more difficult to deal with. This country will be in the creditor position, and other countries will be asking us to give aid similar to that granted to us by Argentina, Spain and Peru, and for much larger amounts.

Export Business Wanted.

It is very desirable at this time to have export business for our industries. The capacity for production has been increased in many lines, costs are at a high level, wages are high, and it is hoped that there will be no necessity to reduce them at least while the costs of living are so high. Export orders are the hope, as a means of supporting the situation.

Moreover the needs of foreign customers should appeal to us. Food is wanted in great quantities to avert starvation over a great part of Europe. How is payment to be made? There will be need for raw materials, and we wish to sell them. The South hopes to see the accumulated cotton stocks moved out to Europe. There are hopes of selling lumber, steel and machinery, but a vital factor in all these transactions will be the question of payment.

Of course it would be better to have all these credits carried by the investing public, but they cannot be carried in the form of commercial credits. They must run a longer time. It is very desirable to develop an investment market in this country for foreign securities. We must do this if we are to play the part of creditor nation, but this will take time. Our people are not accustomed to foreign securities, and we cannot hope to have the market take them as rapidly as the present situation calls for. The only way of immediately meeting the situation seems to be by having the Treasury continue to make loans to foreign governments.

Must Lend to Cover Interest.

Not only is this true as to the sales of products which we wish to make, but it is true as to the interest payments upon the loans we have already made. If the governments which owe these obligations go into the exchange market to buy exchange on New York to make their interest payments they will absorb so much of the floating supply that it will be difficult for the common public to obtain exchange with which to pay for goods purchased here. The result will be a competition for exchange which will result in premiums that will prove to be a burdensome tax on our exports. We can better afford to lend

these governments more credit with which to cover their interest, and carry the situation along in this manner. In time, as we develop our international functions, these matters will create no more disturbance here than they have caused in London which has been the international clearing-house. We have come into this creditor position suddenly, instead of by gradual development.

It appears from current discussion in Washington that there is expectation in some quarters that the interest on the Treasury loans to foreign governments can be counted on immediately as available income in calculating receipts and disbursements for the coming year. If the foreign governments are able to make payment by furnishing supplies or services of some kind to our armies over seas, this may be, but attempts to pay the interest by purchasing commercial exchange will compel the debtor nations to pay much more than the face of the interest charge and compel every foreign purchaser of commodities in the United States to pay a similar premium.

The Harmony of Economic Interests.

It is instructive to observe how the natural laws of trade harmonize interests apparently in conflict. Our European debtors naturally would not want to pay these obligations at once. They are not in position to do so, and under the circumstances we would not want to embarrass them by demands. The loans were made in furtherance of an enterprise in which we were an associate. Some of our people have rather impulsively suggested that we ought to cancel the whole debt, but there is no occasion to discuss that subject now. It is evidently a subject of some delicacy, and there is no reason to suppose that the governments concerned would care to have it made a subject of discussion at this time. But, however that may be, it is clear that it will not be to our interest to have any payments made upon either principal or interest at present or probably for years to come. The exchange situation, and the whole foreign trade situation, will have to be very different from what it is likely to be in the near future before we should want any payments made.

The Bond Market.

The December bond market has absorbed a wider variety of issues than has been presented for some months past, and the investment demand has broadened to include the longer term railroad and corporation issues. Among the new issues rails predominated, with oversubscriptions for \$10,500,000 Chicago & Northwestern General 5s, \$50,000,000 Pennsylvania General 5s and \$8,000,000 St. Paul Union Depot 5½s.

The municipal market opened the month with a material increase in new issues, but the decline in Libertys exercised a deterrent effect until reactionary tendencies became evident. This is best illustrated in the sale of \$350,000 City of Detroit bonds, which, during the middle of the month, were sold about 1½ points below the high bid for a block of \$988,700 of the same issue three weeks previous.

Foreign Governments have been in good demand throughout the month, Anglo-French 5s reaching 97½; City of Paris 6s, 99½; French Government 5½s, 105, and the new United Kingdom Converted 5½s, 101⅜. Russian bonds were the only exception and the attitude of the Allies regarding intervention in Russia is evidently exerting a change in sentiment affecting the speculative buying movement which has carried prices to higher levels during the past few months.

New York traction issues suffered the most sensational decline in their history, many issues recording new low prices. It is unfortunate that discrimination has not been shown between issues which might suffer from reorganization and those in sound financial condition. It is to be hoped that some of the difficulties of the local situation may be solved at an early date by increased fares to offset the rising costs of operation.

Liberty Bonds.

Liberty bonds have occupied a primary position in the general bond market during the month, and on December 30th the New York Stock Exchange reported record bond transactions of \$42,948,000 of which \$39,033,000 were Libertys. On December 26th the Second 4s reached their low figure for the year, 92.70, and on December 27 the First 4s sold at 92.90. On December 30 the Fourth 4¼s sold at 94, the low record for this issue.

Following is a summary of the low prices recorded on the various Liberty Loans to date:

		Yield.
First 3½s, January 31, 1918........	97.20	3.65%
First 4s, December 27..............	92.90	4.40%
Second 4s, December 26..............	92.70	4.50%
First 4¼s, August 17................	93.80	4.63%
Second 4¼s, July 31.................	93 10	4.70%
Third 4¼s, August 28...............	94.70	4.95%
Third 4¼s, December 30..............	94.00	4.70%

There was a sharp rally on December 31 and the closing prices were reported as follows: First 3½s 99.50; First 4¼s 96.58; Second 4¼s 94.96; Third 4¼s 96.40.

In connection with the above yields which now range from 4.40% to 4.70%, municipal bonds of the leading cities such as New York, Chicago and Detroit are quoted on a 4⅜% to a 4.40% basis. It is to be remembered, however, that the municipal bonds are totally exempt from taxation, whereas, the Liberty bonds are exempt with the exception of the First 3½s.

The yield of some of the Liberty issues is also approaching the higher grade rails, for example: Chicago, Northwestern General 5s, a savings bank investment, have been selling on a 5% basis.

During the past week the 3½% issue advanced from 98.20 to 99.60, and it is believed that some of the holders of 4¼s have been rein-

vesting in tax-exempt 3½s, which is only natural, taking into consideration the high income taxes in the provisions of the new revenue bill which may be saved by those drawing large incomes. In this connection, Federal Land Bank 5s advanced from 103¼ to 104¼ and United States-Panama 3s of 1961 from 88½ to 90½, both of these issues being totally exempt from taxation.

Canadian Victory Loans.

In connection with the low figures recorded in Liberty issues, it is interesting to note that the Canadian Victory Loan Committee has announced that the steady demand for Victory Loans has removed the necessity of further stabilizing the market. While all Liberty issues except the 3½s are selling at substantial discounts, the Canadian Victory Loans are quoted from 99½ to 102, according to maturity, 1922 to 1937. These issues were traded on the Montreal Stock Exchange for the first time last week, the 1927 maturity selling at 100¼ and the 1937 at 102. While adherents of the Canadian method of stabilizing the market on Government loans point to the success of the committee's efforts, it must be remembered that the interest rates on the Canadian issues have been higher than the Liberty rates, bearing 5½ per cent., and the loans have been distributed over a much longer period of time. The general weakness in Liberty issues has been attributed to many causes, namely, the approaching Fifth Loan of approximately $5,000,000,000; general selling by small investors for holiday purchases; sales by large investors in order to indicate losses in income tax returns, and the withdrawal of Government buying support in the open market.

Influence of the War on Bond Prices.

As the war has exerted an important influence on security prices it is interesting to trace the trend of 40 selected issues from June, 1914, to December, 1918:

June, 1914	87.075
December, 1914	81.795
December, 1917	75.665
December, 1918	80.659

In order to obtain this comparative index the New York *Times* followed the weighted-average method in which the average price of 25 Rails of various classes was combined with the average of 8 Industrials, 6 Public Utilities and 1 Municipal. The June, 1914, average antedates the serious disturbance which resulted in the acute declines of July and the ultimate closing of the New York Stock Exchange. The December, 1914, average includes the rebound following the opening of the Exchange, which carried prices to higher levels during the earlier months of 1915. The December, 1917, average combines the effect of our early participation in the war which was offset somewhat during this month by the announcement of the Government control of railroads. The December, 1918, average combines the high prices following the signing of the armistice and the reactionary tendencies of the past two weeks. Some interesting comparisons of specific issues can be traced in the following tables:

Bonds	June, 1914	Dec., 1914	Dec., 1917	Dec., 1918
Atchison General 4s	95.70	91.24	82.13	86.58
Pennsylvania General 4½s	....	....	89.04	92.65
Chicago & N. W. General 5s	....	102.50	101.75	101.00
Chicago & N. W. General 4s	95.74	87.76	80.86	86.90
Commonwealth Edison 5s	101.88	100.12	92.58	95.78

The Pennsylvania's recent sale of $50,000,000 General 5s at 99¼ to yield a fraction over 5% compares with the General 4½s in December, 1917, at 89.04 to yield about 5⅛%. The Chicago & North-Western General 5s were recently sold at 100 in comparison with a previous block of the same issue at 102½ in December, 1914, whereas the 4s show a decline of about nine points between December, 1918, and June, 1914. These averages would indicate a gradual recovery with prices approximating the December, 1914, figures, but still substantially below the ruling prices of the early months of 1914.

December Issues.

Following are the more important offerings during the month:

$5,000,000	Braden Copper Mines Co. 6% Bonds, due February 1, 1931, at 96 and interest, yielding about 6½%.
1,200,000	Buffalo, Rochester & Pittsburgh Ry. Co. 6% Bonds, due 1919-1923, at prices to yield about 5.75%.
10,500,000	Chicago & Northwestern Ry. 5% Bonds, due November 1, 1987, at 100 and interest, yielding 5%.
5,334,000	Consumers Power Company 5% Bonds, due January 1, 1930, at 89½ and interest, yielding about 6%.
2,250,000	Keystone Steel & Wire Co. 7% Notes, due November 1, 1921, at 98¾ and interest, yielding about 7½%.
1,000,000	Miller & Lux, Inc., Cal. 6% Bonds, due May 1, 1933, at 100 and interest, yielding 6%.
2,000,000	Niagara Falls Power Co. 5% Bonds, due October 1, 1951, at prices to yield about 5.45%.
990,000	Niagara, Lockport & Ontario Power Co. 6% Bonds, due February 1, 1958, at 93 and interest, yielding about 6½%.
1,300,000	Ohio State Telephone Co. 7% Notes, due December 10, 1922, at 98 and interest, yielding about 7½%.
3,500,000	Pacific Gas & Electric Co. 5% Bonds, due January 1, 1942, at 87⅝ and interest, yielding about 6%.
1,500,000	Palmolive Co. 7% Notes, due December 1, 1923, at a price to yield about 7½%.
50,000,000	Pennsylvania Railroad Co. 5% Bonds, due December 1, 1968, at 99¼ and interest, yielding over 5%.
2,500,000	Public Service of Northern Illinois 5% Bonds, due October 1, 1956, at 87½ and interest, yielding about 5.85%.
3,000,000	Republic Motor Truck Co. 7% Notes, due November 1, 1920 1923, at prices to yield 7¼% to 7½%.
10,598,000	St. Louis-San Francisco Ry. Co. 6% Bonds, due July 1, 1928, at 96 and interest, yielding over 6.55%.
8,000,000	St. Paul Union Depot Co. 5½% Notes, due December 15, 1923, at 99 and interest, yielding nearly 5¾%.
15,000,000	Studebaker Corporation 7% Notes, due January 1, 1921-1929, at prices to yield 7% to 7¼%.
1,250,000	Texas Power & Light Co. 5% Bonds, due June 1, 1937, at 89 and interest, yielding 6%.
1,000,000	Toronto Railway Co. 6% Notes, due December 1, 1920, at a price to yield 7%.
2.847,000	Utah Power & Light Co. 5% Bonds, due February 1, 1944, at 89½ and interest, yielding 5.80%.
1,003,000	Washington Gas-Light Co. 5% Bonds, due November 1, 1960, at 98½ and interest, yielding about 5.08%.
1,000,000	Washington Railway & Electric 6% Bonds, due November 1, 1923, at 96 and interest, yielding about 7%.
3,000,000	West Penn Power Co. 6% Bonds, due June 1, 1958, at 99 and interest, yielding more than 6%.
20,000,000	Wilson & Co., Inc., 6% Bonds, due December 1, 1928, at 95 and interest, yielding about 6.70%.
750,000	Wisconsin Central Ry. Co. 4% Bonds, due July 1, 1949, at 80½ and interest, yielding 5.30%.

Municipal offerings include:

500,000 Cambria County, Pa., 4½% Bonds on a 4.20% basis.
[illegible] Charleston, S. C., 4½% Bonds on a 4.55% basis.
[illegible] Detroit, Mich., 4½% Bonds on a 4.35% basis.
[illegible] Hartford, Conn., 4¼% Bonds on a [illegible] basis.
[illegible] Jersey City, N. J., 4% Bonds on a 4.45% basis.
[illegible] Port of Astoria, Ore., 5% Bonds on a 4.90% basis.
[illegible] Porto Rico 4% Reg. Bonds on a 4% basis.
401,250 San Joaquin Reclamation Dist., Cal., 6% Bonds on a 5.75% basis.
250,000 State of Oregon 4% Bonds on a 4.30% basis.
350,000 Tulsa County, Okla., 4% Bonds on a 4.70% basis.
[illegible] Waterbury, Conn., 4½% Bonds on a [illegible] basis.
280,000 Wyandotte, Mich., 5% Bonds on a 4.60% basis.

Revenues and Loans.

The Senate has passed the new revenue bill, with taxes calculated to yield about $6,000,000,000. The amendments upon the measure as it passed the house are so numerous and radical that it is thought considerable delay will occur in getting the houses together. The bill will increase income and profits levies very much above the present ones, but will remove a portion of the very moderate consumption taxes now in force. This is supposed to be favoring the masses at the expense of the rich, but the real effect is to reduce the amount of capital that would otherwise be available for the support of enterprise and the employment of labor. There is a moderate middle course, and with a strong probability that the costs of living will fall during the coming year, the present consumption taxes might easily have been continued to help provide the money which the Treasury must have to continue the policy of assisting foreign governments to buy largely in this market. Every class of people is interested in having these purchases continued.

The opinion is growing that the Fifth Liberty Loan will have to offer a higher interest rate to be taken readily, now that the war appeal has largely lost its force.

The uneconomic workings of a high tax upon profits have been well demonstrated. After a business concern has reached the point where 80 per cent of its additional profits will go to the Treasury, there is a marked indifference to econ-

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS DECEMBER 27, 1918.
(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold in vaults and in transit	3,187	[illegible]	577	13,043	2,334	7,990	23,351	4,296	8,299	145	5,718	12,021	337,365
Gold settlement Fund	42,635	12,440	[illegible]	[illegible]	15,097	8,389	111,569	26,997	[illegible]	34,018	3,615	25,674	[illegible]
Gold with foreign agencies	[illegible]	2,011	[illegible]	[illegible]	[illegible]	175	816	[illegible]	233	291	[illegible]	321	[illegible]
Total gold held by banks	[illegible]	270,855	33,840	57,834	17,635	16,554	135,736	31,526	25,735	34,454	9,537	38,016	717,952
Gold with Federal Reserve Agents	60,160	294,894	100,918	138,669	64,990	44,012	267,717	63,771	56,112	54,549	22,391	120,126	1,288,309
Gold Redemption Fund	[illegible]	25,000	[illegible]	[illegible]	[illegible]	6,742	14,719	[illegible]	[illegible]	3,597	2,195	[illegible]	84,013
Total gold reserves	114,000	590,749	142,658	197,505	88,020	67,308	418,172	98,695	86,525	92,600	34,123	159,919	2,090,274
Legal tender notes, Silver, etc.	1,168	46,546	898	1,074	214	230	1,670	2,197	119	140	1,230	459	55,945
Total Reserves	115,168	[illegible]	143,556	198,579	[illegible]	67,538	419,842	100,892	86,644	92,740	35,353	160,378	2,146,219
Bills discounted: Sec. by Govt. war obligations	116,328	610,770	161,417	118,006	66,228	47,960	106,124	49,309	32,143	20,245	19,705	52,136	1,400,371
All other	[illegible]	41,605	19,247	10,139	16,646	29,204	[illegible]	[illegible]	5,555	36,153	[illegible]	[illegible]	302,567
Bills bought in open mark't	15,944	[illegible]	3,248	[illegible]	[illegible]	12,239	[illegible]	[illegible]	20,078	14,103	[illegible]	[illegible]	[illegible]
Total bills on hand	146,086	721,698	183,912	167,421	87,977	89,403	235,860	73,401	57,776	70,801	53,612	118,664	b 2,006,611
U. S. Government long-term securities	1,105	1,395	1,385	1,085	1,234	552	4,509	1,153	123	8,867	4,000	3,461	[illegible]
U. S. Government short-term securities	7,416	202,331	10,034	11,681	4,784	6,066	15,612	6,568	5,163	4,396	[illegible]	4,726	282,677
All other earning assets						13							13
Total Earning Assets	[illegible]	925,424	195,331	180,187	93,995	96,034	255,981	81,122	63,062	[illegible]	61,512	126,851	2,318,170
Uncollected Items (deduct from gross deposits)	63,191	171,368	[illegible]	58,640	57,774	38,289	73,055	61,011	[illegible]	[illegible]	21,875	[illegible]	[illegible]
5% redemption fund against F. R. bank notes	270	1,646	450	516	311	285	828	286	236	[illegible]	312	282	5,988
All other resources	[illegible]	[illegible]	1,811	[illegible]	1,370	[illegible]	1,410	[illegible]	[illegible]	[illegible]	948	1,834	22,005
TOTAL RESOURCES	[illegible]	1,745,546	[illegible]	438,688	241,684	202,912	751,116	243,867	167,137	235,160	120,000	343,183	5,251,990
LIABILITIES													
Capital Paid in	[illegible]	20,820	7,562	9,055	4,061	3,190	11,128	3,800	2,931	3,659	3,154	4,633	[illegible]
Surplus	[illegible]	[illegible]			116	[illegible]	216		[illegible]				1,134
Government Deposits	13,553	5,142	5,021	290	4,438	2,960	8,612	4,660	3,432	5,814	2,116	7,349	63,367
Due to members—reserve account	96,924	[illegible]	92,955	[illegible]	[illegible]	44,091	219,664	57,083	48,487	68,032	32,767	77,008	1,587,318
Collection Items	[illegible]	[illegible]	76,991	[illegible]	[illegible]	[illegible]	51,564	49,194	8,978	[illegible]	[illegible]	30,214	554,823
Other deposits incld'g For. Government credits		102,577		79		39	1,504	171	16			2,606	106,992
Total Gross Deposits	155,025	934,598	174,967	160,669	93,059	69,306	281,344	111,108	60,913	104,412	49,921	117,177	2,312,500
F. R. Notes in actual circulation	163,205	736,552	233,481	255,486	138,118	122,764	433,775	120,722	97,361	112,510	59,578	211,692	a 2,685,244
F. R. Bank Notes in circulation, net liability	5,828	32,725	8,578	[illegible]	3,879	5,753	17,524	6,128	4,140	11,404	5,539	6,242	117,122
All other Liabilities	[illegible]	[illegible]	3,353	4,096	2,451	[illegible]	7,129	2,109	[illegible]	3,175	[illegible]	3,159	[illegible]
TOTAL LIABILITIES	334,756	1,745,546	[illegible]	438,688	241,684	202,912	751,116	243,867	167,137	235,160	120,000	343,183	5,251,990

(a) Total Reserve notes in circulation, 2,[illegible]
(b) Bills discounted and bought, U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,430,828; 16—30 days 341,295; 31—60 days [illegible]; 61—90 days [illegible]; over 90 days [illegible]. Total [illegible].
Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 59.7%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 61.8%.

omy in expenditures and a corresponding disinclination to risk any capital sum in new ventures. Selling to establish losses was a familiar feature of the stock and bond markets in the last week of the year, but was also practiced to some extent in merchandise. For example, a manufacturer who came to the end of the year with a large stock of a high-priced material on hand, which seemed likely to decline in value considered it to his advantage to dump it at a sacrifice, and take the loss this year while the Treasury would bear four-fifths of it. Advertising houses have had a good argument in favor of heavy expenditures for publicity, for if 80 per cent. of the profits are going to the Treasury, why not spend liberally for the benefit of future business and charge to operating expenses? There are many ways of defeating the government's purpose, and the longer the tax is maintained the more disposition there is to employ them. Mankind is much the same everywhere in this respect as witness the following extracts from the annual address of Lord Inchcape, Chairman of the Peninsular and Oriental Steam Navigation Company, one of the great British shipping lines at the annual meeting of stockholders of that company. He said:

"If Great Britain is to recover commercially, it must get rid of the excess profit duty. There is no greater deadweight on enterprise, initiative, and industry than this tax. We all bowed to it when it was introduced, we loyally accepted the increases, but those of us who are engaged in business realize that its operation is vicious in the extreme. Human nature being what it is, the impost leads to indifference and to extravagance, not only on the part of principals, but on the part of staff. It is no uncommon thing for an application for an increase of salary to be supported by the plea that, after all, the Government that is, the taxpayer will pay 87½ per cent., while ventures or developments which would be seriously considered are brushed aside, for the reason that if they turn out well the Government will take the lion's share, and if they turn out badly the entire loss falls on the adventurer. The tax also completely prevents any man starting in business for himself, as all he will be allowed to keep out of his profits is a moderate rate of interest on his capital, plus a mere fraction of his profits, if he makes any. Ladies and gentlemen, this is not good enough for the risk."

Banking Conditions.

The money market has had an easier feeling during the past month, and rates have worked lower, although the actual change in the demand for money and condition of the banks is small. The figures for the total earning assets of the reserve banks on December 27 were $2,318,170,000, as against the record figures, $2,370,019,000 on December 6, and the total loans and investments of member banks (other than loans on government securities), were $10,226,132,000, as against $10,657,690,000, the record, on November 1. The interest rate on first class time loans is down from 6 per cent to 5½, and call loans were as low as 4 per cent during the month but firmed up in the holidays to 6.

The future of the money market depends upon the activity of general business. The demand for money increased steadily during the war, owing to the insistent and practically unlimited demands of the government and the constant increase in wages and prices. With the war over the government's needs for ready money although temporarily greater will decline and as business slackens and wages and prices decline less credit will be required. The movement has not gone far enough as yet to make much showing in the totals.

Up to and including December 27, the disbursements of the Treasury from and including July 1st, exclusive of payments on the public debt, aggregated $10,402,082,328, and seemed likely to reach $11,000,000,000 for the full six months, or at the enormous rate of about $22,000,000,000 per year. Included in this were loans to foreign governments to the amount of $2,047,986,697. For the full month of December, disbursements were about $2,100,000,000.

A notable feature of the last month has been the heavy gain of savings bank deposits. In the savings banks of New York City largely patronized by the foreign born element this has been from five to ten per cent, with abundant evidence that hoarding had been practiced since the entrance of this country into the war. In some instances the money came back in the original straps in which it had been withdrawn.

Discount Rates.

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to December 31, 1918.

Federal Reserve Bank.	Maturities. Discounts. Within 15 days, including member banks' collateral notes.	16 to 60 days.	61 to 90 days.	Agricultural and live-stock paper over 90 days.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: Within 15 days, including member banks' collateral notes.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: 16 to 90 days.	Trade Acceptances. 1 to 60 days, inclusive	Trade Acceptances. 61 to [illegible] days, inclusive
Boston	4	4¾	4¾	[illegible]	[illegible]	[2] 4¼	4½	4½
New York [1]	[illegible]	4¾	4¾	[illegible]	[illegible]	4¼	4½	4½
Philadelphia	4	4¾	4¾	5	[illegible]	4¼	4½	4½
Cleveland	4¼	4¾	4¾	5¼	4	4¼	4½	4½
Richmond	4½	4¾	4¾	5	[2] 4¼	[2] 4¼	[3] 4½	4½
Atlanta	4¼	4¾	4¾	5	[illegible]	[2] 4¼	4½	4½
Chicago	4	4¾	4¾	5½	[illegible]	[2] 4¼	4½	4½
St. Louis	4	4¾	4¾	5½	[illegible]	[2] 4¼	4½	4½
Minneapolis	4½	4¾	5	5½	4	4¼	4½	4½
Kansas City	4½	5	5	5½	[2] 4¼	[2] 4¼	4¾	4¾
Dallas	4½	4¾	5	5¼	[illegible]	4¼	4½	4½
S'nFrancisco	4¼	5	5	5½	4¼	4¼	4¾	4¾

[1] Rate of 3 to 4½ per cent for 1-day discounts in connection with the loan operations of the Government. Rates for discounted bankers' acceptances maturing within 15 days, 4 per cent; within 16 to 60 days, 4¼ per cent; and within 61 to 90 days, 4½ per cent.

[2] Rate of 4 per cent on paper secured by fourth Liberty loan bonds where paper rediscounted has been taken by discounting member banks at rate not exceeding interest rate on bonds.

[3] Rate for trade acceptances maturing within 15 days, 4½ per cent.

Note 1. Acceptances purchased in open market, minimum rate 4 per cent.

Note 2.—Rates for commodity paper have been merged with those for commercial paper of corresponding maturities.

Note 3.—In case the 60-day trade acceptance rate is higher than the 15-day discount rate, trade acceptances maturing within 15 days will be taken at the lower rate.

Note 4.—Whenever application is made by member banks for renewal of 15-day paper, the Federal Reserve banks may charge a rate not exceeding that for 90-day paper of the same class.

THE NATIONAL CITY BANK OF NEW YORK

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, FEBRUARY, 1919.

European Affairs.

THE elections in Germany showed that in point of numbers and real importance the so-called Spartacus group, which tried to imitate the tactics of the Bolsheviki, was insignificant, probably not five per cent. of the population of the country. They voted with the independent Socialists, but cannot be credited with all of the votes cast by that party, which was sixth, and last of all parties, in the poll. They attempted with extraordinary conceit and audacity to prevent the election of a representative General Assembly and assume the government of the country. Apparently the great body of the people had no sympathy with revolutionary methods. The parties under various names other than Socialist have elected a majority of the General Assembly, but the moderate Socialists have a strong plurality and with the co-operation of the Democratic party or old Liberal element, will doubtless control the government. The outlook seems good for the firm establishment of a Republic of moderate policies with which the Allies may safely deal. Industrial disorder is still serious, through the continued agitation by the radicals, and the economic recovery of the country is delayed thereby. Great hardship results to the masses of the people.

The Peace Conference has asked all the governments and factions which are claiming authority in Russia to send representatives to a meeting with representatives of the Conference. The proposal, which was drafted by President Wilson, gives assurance that the Allies do not wish to impose their will upon the people of Russia, but only to aid them in establishing order and peace, which of course is the case. The policy adopted in seeking the conference is one over which opinions inevitably differ. It is understood to have been favored by the American and English delegates and viewed with misgivings by the French. It is difficult to see how there can be any agreement or compromise between the Bolsheviki and the elements who oppose them, for it is the policy of the former to tolerate no opposition. The first step toward the reorganization of Russia presumably would be to have an election for the formation of a government representing all the people. A constituent assembly was elected in 1917 but the Bolsheviki refused to allow it to function. Perhaps the Peace Conference is moving in what it conceives to be the orderly way to call for the establishment of a responsible government by democratic methods. In that event the invitation is preliminary, whether accepted or not, to the development of a policy.

League of Nations.

The Conference has adopted by unanimous vote the proposal offered by President Wilson and seconded by Lloyd-George, the British Premier, for the formation of a permanent League of Nations for the consideration of international interests. There was nothing in the speeches of the President or the Premier to justify the apprehensions of those who have argued that grave complications were likely to develop from the establishment of a world organization. It is not likely that any super-state vested with vague and sweeping powers will be created, but it is manifestly impossible that when the deliberations of this Conference come to an end, and the final adjournment is had, there shall be no organization representing these nations to succeed it.

The reorganization of the nations of Europe which is foreshadowed and already in part accomplished cannot be merely set up by this Conference, and then left to any fate, without support or sponsorship from the hands that have ordained it. That would be a policy of egregious folly. Incidental to this reorganization there will be many difficult questions to settle which will require time and the friendly offices of the powers who are chiefly responsible for the new order. Boundary questions, debt obligations, differences of race, language and religion, the resentments springing from past relations, the clash of economic interests, with antagonisms and rivalries of every kind, would instantly threaten the permanency of the settlement and the peace of Europe. The President is right in saying that the Confer-

ence can only establish the processes of settlement; it cannot finish the task, nor can it abandon the task and go home with no provision for its completion.

The United States cannot disown or disregard its own responsibility in this settlement. It has had as large a share as any nation in dictating the reorganization of Europe. It is certainly too late to say that we have no interest in the affairs of that continent; our casualty list and our new national debt testify that we have assumed an interest in them. We have found it necessary to enter a European war, with the beginnings of which we had nothing to do, and the terms of settlement to which we have already subscribed were thought necessary to secure the fruits of our victory. Surely no argument is required now to show that we should not withdraw from the situation or from conference and co-operation with the nations with which we have been associated.

Is It Impracticable?

And it is not a long step or an illogical one from a conference over matters directly involved in this peace settlement to the consideration of other affairs of international concern, which may affect the attitude of nations toward each other and possibly the peace of the world. It is now regarded a good thing in the commercial world for rivals and competitors to get together around a table and thresh out the differences and grievances which inevitably arise among them. It is better than to whisper and magnify them, adopt retaliatory measures or try to strike the first blow. The objection that a world organization is impracticable naturally raises a question as to what could be more impracticable than this which has been going on in Europe for the last four years or the secret diplomacy and competition in armaments which led up to it? It would seem to be time to make at least a cautious attempt to see what can be done by open consideration of every question which involves a conflict of interests, including appropriations for armaments and war stores, and the means for peacefully adjusting disputes.

Of course if such a Conference extends its view to matters which concern nations not heretofore represented in the body, those nations would naturally claim the right to participate in the deliberations. If an organization thus formed is what is contemplated in the League of Nations, it is difficult to see why it should not be welcomed as a step forward from the state of world anarchy or group alliances, which has existed in the past. It is true that the development of policies, and of some degree of concerted action and even of authority, would naturally follow, but that is no more than we are already morally committed to in the settlement of the issues directly related to the war, and we can safely trust ourselves to deal with other questions as they arise. It is not likely that this or any other country will be asked to consent to the impairment of its sovereignty, or to put its decision upon any grave issues of the future beyond its own determination at that time.

The main argument for such an organization is not that it would have great powers of coercion, but that in order to maintain its authority every policy adopted would have to be based upon universal principles of equity and command the practically united support of enlightened judgment everywhere. Here is the court of last resort and the final security for the liberty and peace of the world. The late imperial powers of Europe know this now.

Business Conditions.

Payments through the clearing houses have shown no falling off, but for the week ended January 22 were the greatest on record, a fact probably due to the heavy Treasury disbursements. Travel is heavy, but freight traffic both in raw materials and merchandise is falling off. Undoubtedly a reaction from the war activity has set in, and may be expected to continue at least until the spring outdoor activities open up. It should be borne in mind that this is the season of the year for slack trade and that the mild weather has affected the distribution of some classes of merchandise. Ordinary trade for private consumption is in fair volume, but there is no large demand to take the place of the war business which has suddenly dropped out. The obvious difference between the peace demand and the war demand is that the latter is willing to wait if there is a prospect for lower prices a little later, as most buyers seem to think there is. Jobbers and retailers are buying from hand to mouth, and manufacturers are doing the same with raw materials, all trying to work off stocks and keep them as low as possible. The situation is therefore just reversed from what it was during the war, when the upward trend of prices prompted dealers to buy well ahead of their needs. Under the present conditions stock comes on the market from unsuspected sources, and with a slack demand, prices give way.

There is no mystery in the situation or occasion for surprise over it. On the contrary developments are just as might have been expected. No general change has occurred except that demand in nearly all lines has suddenly fallen off, and surely everyone knew that this would occur when the war came to an end. Business always hesitates in the face of a fundamental change. It came nearly to a dead halt when the war broke out although all experience had shown that war invariably causes great industrial activity and high prices. The transition period from war to peace is inevitably one of uncertainty. Men wait to see what others

do. Prices are expected to fall; how much nobody can tell, but the natural impulse is to delay purchases.

January is not an active month in trade at any time, but a month for clearing up and taking stock both of goods and prospects. Buyers are never indifferent very long without making some sellers anxious, and this was sure to be the case when accompanied by the cancellation of government contracts and enormous contraction of war demands which followed the signing of the armistice. The Government had bought and held in its warehouses great quantities of materials and goods which it would not use and which therefore hung over the market. Nobody knew at first what policy the Government would pursue. Such a situation develops different opinions, and of course all parties are not in the same position. Buyers have the upper hand, and those who want to sell must make concessions. Moreover, the announcement of a reduction of prices at first does little more than unsettle the market. It merely gives notice that the downward movement has begun, and perhaps makes buyers more timid than before.

The *Textile World-Journal* gives an instance which illustrates the situation:

> Indicating the evil effects in unsettling the minds of buyers of yarn by cutting prices, and thus causing them to refuse to buy at all, looking for still further prices, a story is told of a certain knitter who was in the market for a good sized order of 60's two-ply mercerized combed peeler. The buyer had always given a preference to a certain mercerizer, who in turn was also glad to quote him as close a price as possible. They had sold this same yarn at \$1.42½ the week before, but in order to hold the business they quoted him \$1.40. The buyer told them that a quotation had been made to him of \$1.35, and after getting in touch with his mill, the mercerizer met this price by close figuring. He was then told the first salesman had made a quotation of \$1.34, and rather than lose the business, this price was met, only to learn that a still lower price had been named of \$1.30. This decided the buyer, and he was through, and refused absolutely to buy for the present.

An instance of this kind shows that the trade is floundering about, not knowing where solid ground lies. Present trading does not tell very much as to where prices will ultimately go, because the influences which finally will establish the level are not yet fully developed.

The first cut all around is into the profits of the seller, and profits are affected not only by price reductions but by reductions in the volume of business, which increases the percentage of overhead. After profits are eliminated, as they are already in some important lines, there is a pause to see how costs can be cut, and this is the fundamental question now, for on the whole costs will govern prices.

Cotton and Woolen Goods.

One of the surprises has been in cotton and cotton goods. It had been generally believed that with the end of the war there would be a great foreign demand for both, but confidence in this demand seems to have largely diminished. The fall in raw cotton since early in September has been from 15 to 18 cents per pound, and the cuts upon cotton goods during the past month have been from 16 to 35 per cent. In view of the decline in the raw material the declines in finished goods are not as significant of a change in the industrial situation as at first might appear. Moreover, it is not certain that this decline in cotton is justified, for although military operations are over, the blockade against Central Europe is still maintained and the cotton mills of France and Belgium are not yet in position to resume making cloth. The shipping situation has been unfavorable to large exports, not only because ships were otherwise needed, but because sharp reductions in charges were anticipated. On the 27th of January new rates upon general freight between here and European ports, only one-third previous charges, were put into effect and on cotton the rate from South Atlantic ports was reduced from \$4.50 to \$1.25 per hundred pounds, causing a temporary rally in the cotton price. An official restriction has been in force upon goods manufactured in Lancashire and in December a strike was on, but the strike has been settled, and the restrictions partially removed. During the fall months exports of cotton ran considerably below those of corresponding period of 1917, but in the last two months they have been gaining, and from August 1st to February 1st are practically the same as last year. The world's visible supply is about 325,000 bales larger than a year ago and about 570,000 bales smaller than two years ago.

Export Trade.

The general shipping situation and price situation has been such as to keep down a normal export trade in cotton goods. Before the armistice shipping facilities were so poor that orders could not be forwarded and there was a great accumulation of goods at the ports. After the armistice there arose the probability of reductions both in freight and prices and millions of dollars worth of orders were cancelled by cable and in many instances where the goods had gone forward they were rejected upon arrival. Nor were cancellations confined to foreign orders. It does not certainly follow, however, from these cancellations that the goods will not be wanted; price determination for the moment is uppermost. The markets of the world are not yet opened up, and the influences which have been expected to make prices are not yet effective. It cannot be supposed that the present state of demand is an index to what it will be throughout this year.

When the peace treaty is signed cotton will be wanted for the mills in Germany and Austria, and when the mills in Belgium and the devastated districts of France are restored cotton will be wanted for them, and some of the best informed people in the trade believe that there will be a good export business in cotton goods from this country to Europe before many months have past.

A Labor Controversy.

Another factor in the textile industry is the reduction of working time from 54 hours per week to 48 which takes effect February 3, by agreement in the principal Massachusetts mill centers. By a compromise pay is reduced to correspond with the reduction of time, but costs to the mills will be higher because overhead costs will be charged against a smaller production, and the fact that this agreement has been reached indicates that labor costs will not be reduced in the near future.

There is no available wool in this country except that owned by the Government which is mainly of coarse quality, not suitable for fine goods. After holding several unsuccessful sales in which it tried to save itself by means of minimum prices, the authorities dropped the minimum about 25 per cent, and has since held several successful sales, the wool going exclusively to manufacturers who had orders in hand. The Government minimum is at parity with the British Government's selling prices, and this places woolen manufacturers on a fairly stable basis until the new wool crop in this country comes on, when the Government has promised to discontinue sales until the domestic crop is worked off. Business is still slow, however, in the woolen goods market.

The knit goods situation is also in doubt, and at a large meeting held in New York last month after an interchange of views between manufacturers and jobbers a resolution was passed that buyers be protected upon prices to July 1, provided that one-half a manufacturer's average annual production to American trade is sold by that time.

Steel and Other Metals.

In iron and steel, prices are down about 10 per cent. Prices are far above what they were before the war, but so are costs, and further reductions probably would not stimulate business at the moment. Wage increases have been large and the leaders in the industry say they will not ask for reductions while the cost of living remains at the present level. The mills are operating at about 70 per cent. of capacity, which is not bad in view of the increase of capacity in the last four years, but they are running mainly on old orders and booking but few new ones. The prospect now is that operations will be further reduced before they are increased. A big demand for steel is always for construction work, and as this represents permanent investment it is not likely to go forward in a large way on the present level of costs.

Copper is down from 26 cents to 23, with small dealings at lower figures, but the situation is affected unfavorably by the large stocks held by the governments, and by the talk of copper salvage in the war territory. On the other hand there has been a large consumption in Belgium and Germany of copper taken from buildings and other uses where it will be sooner or later replaced, and all reconstruction work will require copper. Permanent reconstruction work has scarcely begun. In Belgium and France it lags on action by the governments and the settlement of indemnities. Germany is still closed to importations, and in eastern Europe conditions are chaotic. The mines are curtailing copper production. Lead is down to 5¼ cents from 7¼, three months ago.

Foodstuffs.

It is evident that foodstuffs hold a key position in the situation, as there can be no general readjustment of wages without a decline in the cost of food. This has been started sooner than expected, partly because the ending of the war works a radical change in the future outlook, and partly because of a large accumulation of stocks in this country and diminished purchases by the Allies. It is not necessary to carry as large stocks in the allied countries as before, and furthermore England has sent great fleets to Argentina and Australia for grain and meats already purchased there. At the same time the most active season of the year for marketing live stock and grain was on in this country and the rapid accumulations became a load which dealers were timid about carrying. The situation was uncertain and artificial, with foreign sales depending upon the action of governments and the granting of credits, and the latter depending in turn upon the action of Congress. Everybody agrees that foodstuffs will come down after the present situation in Europe is over, and there has been a disposition to anticipate the movement. The greatest drop has been in corn, which has suffered from reports that cargoes were being loaded in Buenos Aires for this market, and a fear that the Government would lower or abandon the fixed price on bags. Corn is down about 40 cents per bushel in a few months, and oats about 25 cents. Wheat is sustained by the Government price. The open winter is a bearish influence on dairy products, and butter is down about 20 cents per pound. Eggs are down proportionately, and most vegetables are lower.

Meanwhile, as in the case of cotton and cotton goods, it is not certain in view of the world situation that the decline of foodstuffs is not premature. The interior and eastern parts of Europe, where the greatest food scarcity exists, have not been opened up to importations, although they must be soon or starvation will ensue. The Inter-Allied Food Council at Paris has recommended that the enemy countries be allowed to import 70,000 tons of pork monthly, beginning at once, and Mr. Hoover sends warning that there is great danger in assuming that the food shortage is over. Outside of Germany there is destitution throughout the 60,000,000 of people who have been set up as new nations. Moreover, while it is not proposed to give food

to Germany we cannot after the peace treaty is signed refuse to sell food to the German people, and their wants will be large.

Meats.

The Food Administration has sought, with wisdom no doubt, to promote the production of fats, of which there is a world-wide scarcity, by fixing a liberal price for hogs, which was done in conference with representatives of farmers' organizations and packers. It has been made an object to grow a good crop of pigs and to bring them to a good weight, although much of last year it was doubtful policy to convert corn into hogs. The fixed price on the latter has been $17.50 per hundred weight at Chicago, and that the Food Administration believes it still good policy to have corn converted into pork is shown by its having just reaffirmed the price for the month of February. It should be understood that the farmers are just now maturing the crop of hogs which they were encouraged by the fixed price to raise, hence it is but fair to continue the price for the present. Moreover there is good reason to believe that the fixed price will be fully justified by the demand.

Our exports of agricultural products, in quantity and value for the calendar years 1917 and 1918 are given herewith:

VALUES.

	1918	1917
Breadstuffs	$801,498,000	$631,989,000
Meat and dairy products	941,241,000	437,450,000
Cotton	674,173,000	575,304,000

QUANTITIES.

	1918	1917
Breadstuffs—		
Wheat, bushels	111,177,000	106.196.000
Flour, barrels	21.707.000	13,926.000
Corn, bushels	39,399,000	52.168.000
Oats, bushels	98.678.000	114,463.000
Barley, bushels	18.805,000	17,859,000
Rye, bushels	7,632,000	13,411,000
Meats—		
Fresh Beef, lbs	514,342,000	216.421.000
Corned Beef, lbs	141.447.000	63.471.000
Pickeled Beef, lbs	44.208,000	67,811.000
Bacon, lbs	1,104.788,000	578.128 000
Hams and Shoulders, lbs	537.213,000	243,587.000
Lard, lbs	548.818 000	372,721,000
Neutral Lard, lbs	6.307.000	9,423.000
Pickeled Pork, lbs	36.472.000	39.294 000
Lard Compounds, lbs	43.976.000	49.300 000
Oleo Oil, lbs	69.106 000	33.400,000
Cotton, bales	4.112.000	4.819.000
Condensed Milk, pounds	551,140,000	428,575,000

These figures do not include supplies for the American army shipped in Government vessels.

The Fuel Administration estimates that this country will be called upon for 50 per cent greater exports in 1919. The grain crops of Europe are mainly sown in the fall. The numbers of live stock, particularly hogs, have been greatly reduced, and the central countries are large consumers of pork.

The marketings of all kinds of live stock in the United States increased in 1918. On the ten leading markets, the sales of cattle increased 10.87 per cent., of hogs 18.62 per cent. and of sheep 12.31 per cent. The Government's estimates for hogs on farms at the beginning of 1919 are 75,587,000, against 70,978,000 at the beginning of 1918. Cattle and sheep about the same as a year ago.

After the Next Harvest.

We would repeat that the outlook is for an abundant supply of foodstuffs and lower prices after the next crop is harvested. The present stocks of wheat in the United States are the largest ever known, but the Food Administration believes that there will be only a small carry-over into the next crop year. The acreage of winter wheat in this country is 17 per cent. above last year's, and up to this time the conditions of plant and soil are ideal for a big yield, but there is no snow covering, and severe weather might work injury. The Government's price guaranty, as it stands, will cover the spring wheat crop of this year which is not yet planted, and as it is the only farm product under a price guaranty through the year, the planting probably will be large, if the guaranty is not modified. Nobody is wise enough to foretell how much the wheat guaranty will cost the Treasury. It depends upon crops this year over the world. The Secretary of Agriculture is asking a fund of $1,250,000,000 to carry out the terms. If the Food Administrator is correct in his estimates of the foreign demand it will not cost nearly that much, but the authorities should be in position to make good on the Government's pledges.

The Food Administration holds that there is no justification for reducing the price of wheat upon the present crop, as a reduction probably would be followed by an advance when the foreign markets are opened.

General Commodity Prices.

On the whole it does not appear probable that general commodity prices will continue a headlong decline to the level of before the war. We see no reason to alter our previously expressed opinions that the tendency after the end of the war would be downward, but that it would be impossible to reduce costs rapidly to the old level. They are not going to be reduced rapidly in other countries. Freight charges have just been largely reduced on the ocean, but not to pre-war rates, and railway charges are not being reduced at all. Profits are being sacrificed, and production curtailed, but the fundamental conditions which are necessary to prices much below those now existing have not been established here, still less in Europe.

Abroad, industrial conditions are chaotic. Labor is not only unwilling to accept reductions, but is aggressive in its demands for higher pay and shorter hours. Moreover, the hoped-for gain in efficiency to offset the higher wages of war time is not likely to be realized upon peace work, at least immediately. On the contrary labor appears to be in such a belligerent and unruly mood that the older labor leaders are alarmed over the situation. These conditions will not lower costs upon manufactured goods,

although they will lessen the demand and perhaps lower prices for some raw materials.

Finally, the great underlying fact in the situation is the world-shortage of goods, following four years in which production has been devoted mainly to war supplies, and the need of raw materials and equipment for reconstruction.

Wages and Costs.

In this country, wage rates are generally maintained, and most employers wish to maintain them at least until a readjustment can be made concurrently with the decline of articles of common consumption. To a great extent wages and prices are interlocked, high prices being due to high wages paid to producers. If the pay of one group of workers is reduced and the prices of their products decline, the consumers of these products are gainers at the expense of that group of workers. The latter then have a just claim that reductions shall be made in the goods which they have to buy. Fairness requires that all shall come down together.

The reductions which will affect the greatest number of people at once are those in foodstuffs and clothing materials. The producers of foodstuffs are so many in number and so widely scattered that any general combination among them to maintain prices has always proved impracticable. Their products respond quickly to the conditions of supply and demand and are now falling, although the world food situation is not yet clear. Certainly they will decline largely by the end of another crop year. But as their products come down the farmers will naturally and reasonably claim reductions in the prices of what they must buy, and this probably will involve wage reductions in other lines.

The Crucial Question.

The crucial question in every industry is not a theoretical or sentimental one, but the practical one whether the products of the industry can be sold in sufficient volume on a given level of prices to afford employment to all the people who are looking for work in that industry. There may be different theories about it in advance, and the opinion of the wage-earners may be as good as that of the proprietors; certainly one side has as good a right to its opinion as the other. But eventually there will be a demonstration, and then it will be good policy for both sides to conform to the results. The public is the final employer, and it doesn't pay anybody to quarrel with the public for not buying his products or giving him employment. The public buys what it pleases to, and the wise man adapts himself to its wishes, and if he cannot attract its patronage at one price or in one line shifts to another price or another line. The labor organizations are definitely of the opinion that it is better for them to put up with part time rather than reduce a wage rate which has been established, and they may be right about it if it takes a fight every time to get their wages restored. But on the other hand if low production and high prices delay the general recovery of industry by causing a reduction of consumption it is well to remember that the laboring people of the country are suffering on both sides of the dead-lock, for they are the chief body of consumers as well as of wage-earners.

Hours of Labor.

The same is true of the effort on the part of the wage-earners to shorten the work-day. The length of the work-day is a matter for conference and very careful consideration in all its aspects. Is it wise to add to the burdens of industry at this time? We will not affirm that shortening the hours will always reduce the output and increase the cost, because that is a fact which can be determined best by actual test in the different industries. If it does not reduce the output nobody will object to it, and on the other hand if a general reduction of the hours of labor does reduce the output and raise the price of every article of consumption, the laboring people, who are the chief body of consumers, will find the burden inevitably falling upon them, not by contrivance or manipulation, but because they are consumers.

One very large experiment of this kind has been tried in the last two years, by reducing the unit day of railway employes to 8 hours. It is true that the hours of labor were not commonly reduced to 8 hours, but probably nobody ever supposed they would be, and however that may be, railway charges have gone up 25 per cent., and the increase enters into the cost of living of every family in the country.

The effect would be more serious if the hours of trainmen actually had been reduced to 8 hours, because then a larger labor force would be required to operate the roads, and men would be withdrawn from other industries, reducing production and making other living expenses higher.

In saying this we are not pronouncing against the 8-hour day, or assuming to fix the number of hours which should be worked in any industry. We are only stating what must follow if a reduction of the hours makes it necessary to employ more workers to produce a given result. The effect will be distributed over the entire consuming public, and it will be the effect of scarcity. It may be best to reduce the hours of labor in spite of this effect. Perhaps it would be better for the entire population to get along with less of the things they want, and have a shorter work-day, but will everybody be satisfied with this result?

The Economic Argument.

There is of course an amount of exertion, varying with the kind, beyond which the worker deteriorates or fails to recuperate. Certainly labor should not go beyond that. There is no economy in going beyond that, and the best

interests of society forbid it. It has been demonstrated in some industries that men will do approximately as much work in 8 hours as in 10. That ought to settle the question in those industries without argument. In other cases it may be urged that although there may be some decline in production there is a saving of human wear and tear which prolongs the efficiency of the worker. This is a valid argument when supported by the facts. It may be also urged that shorter hours, with more time for leisure and reading, will give a higher class of workmen, who will contribute to the development and efficiency of industry, and thus produce eventually even higher economical results. This likewise is a valid argument, but wherever the proposed action will result in a diminution of output it must be remembered that counter considerations of precisely the same character must be taken into the account. The effect of reducing the supply of goods to consumers—who are the workers themselves—must be weighed against the benefits derived by the same people from working shorter hours.

If a family was living on an island, with no communication with the outside world, supplying all its own wants, the direct relation between its labor and the satisfaction of its wants would be very clear. It would decide for itself whether it would obtain greater benefits by working longer hours or having more leisure. In industrial society the situation is more complicated but the question is the same. If the hours of labor are to be reduced to the extent of curtailing production, everybody should understand just what it means to himself and his own family. What is he willing to give up, that he now has, for shorter hours? Is he willing to do with less milk or butter, or clothing, or house furnishings, or with a smaller apartment, less fuel, or fewer amusements? It comes at last to balancing the value of the things we want against the value of the time we would like to save from labor, measuring both by the same estimate, to wit, how will our highest interests and the progress of society be best promoted?

Cost of Idle Machinery.

In many of the modern industries the physical labor is light, consisting of tending machinery which is more or less automatic. Under such conditions evidently labor cannot render as much service in 8 hours as in 10, for the machinery cannot do as much in 8 hours as in 10, and when labor stops the machinery stops, but the overhead charges go on. In the industries where a great investment of capital is necessary to secure high efficiency the overhead is a very important portion of the costs entering into the selling price of the product. In these cases the question arises of the feasibility of having several shifts on the machinery, but against this there are counter influences and particularly the fact that it requires labor in unnatural hours, which is unfavorable to health, always condemned for women and more costly in various ways.

Competition is necessarily a factor in such questions, but if competition and the question of profits were eliminated there would remain these counter considerations affecting the interest of the consuming public. The cost must be paid by the public, which is by no means a conclusive argument against shorter hours but a fact not to be forgotten.

Balanced Industry.

The argument that shorter hours are needed in order to provide employment for all the workers is valid only as an expedient to help over a temporary situation. No policy that raises costs and curtails distribution can provide more work. Employment is created, consumption is increased and the general comfort promoted by reducing costs. There is plenty of work for all when industry is well balanced and harmonious. In a great factory where thousands of workmen are distributed in numerous departments, but working upon different parts of a joint product, their numbers must be properly adjusted to each other, or there will be idleness. In a shoe factory, for example, there must be no more workmen making heels than are required to heel the shoes made in the other departments, and the industries of a given population must be balanced in like manner. It is possible to over-develop a given industry in proportion to the rest and it is possible to have a temporary derangement of industry from such a cause as the war, but a general state of over-production and unemployment is normally impossible.

Unemployment and Women in Industry.

Unemployment is appearing in the important centers, particularly at points of demobilization. Again it should be remembered that in normal times there is always some unemployment in January and February, when out-of-door pursuits are more or less inactive. Moreover, men have been drawn from the farms and small towns all over the country into the war industries and the naval and military services, and are not inclined to return immediately to their former homes, the more so as at this season there is little for them to do there.

Of course the large number of women recruited into the industries in the last two years affects the situation, although as a general rule men who have been in war service are given their old places when they apply for them. The women, however, like their experience as money-earners, and have no intention of retiring from the field. They have demonstrated their ability in many lines which they had never entered before, and it cannot be doubted that they will remain a larger factor in business life than ever before. Naturally this arouses some antagonism, originating with men who find themselves facing

new competitors, but extending to the sympathetic but uninformed class who are always ready to interfere with the free play of natural forces. In the first place it would be impossible to maintain that women have not as good a right to earn their livelihood and develop their native talents in industry or business as men, or that they are not as competent to say what occupations are suited to them as men are to say for them. Women are full and equal partners in American life, and policies which deny this fact will have to be abandoned.

Competition of Women.

But the theory that the employment of women in industry will reduce the opportunities for men or lower the average wages of men is unsound. It may have that effect in individual instances, just as the introduction of labor-saving machinery does, but on the whole the use of labor-saving machinery is of great benefit to the masses of the people, wage-earners included. Machinery makes labor more productive, and increases the supply of the comforts desired by all, without on the whole reducing the demand for labor at all.

This is fully recognized by the competent leaders of labor. It is a fundamental fact that there is no limit to the demand for the products of labor; indeed all our social unrest is because people want more things than they are able to buy. The problem is to increase the purchasing power of the people and at the same time increase the supply of the desired things, and to give women work in industry accomplishes both these desired ends. If a woman who has not been a money-earner becomes one, or if a woman is advanced to work of higher pay, she becomes a more potential buyer in the markets and creates a new demand for goods, which offsets her labors and her competitive influence in the wage-earning field.

The entrance of women into numerous occupations will also naturally remedy the injustice often complained of, to-wit, the lower wages of women as compared with men. The unfairness of this in the cases of many individuals is admitted, but it has been the natural result of women crowding into a few occupations. The law of supply and demand will not be denied and so long as women, for reasons imaginary or real, are held to be unsuited for many occupations and crowd into a few, wages in those few will be unfavorably affected by the excess of supply over demand.

Governmental Policies.

The various departments of the Government are working with good spirit to minimize the difficulties of the situation, but the inherent weakness of the governmental organization in dealing with a business situation is very apparent. The announcement that the Government's stocks of goods will not be dumped on the market, but held for the present and disposed of in a manner to cause the least disturbance, has had a good effect. The delays in the settlement of contracts are very trying. The work of the Employment Bureau in placing discharged soldiers is admirable.

The idea that the Government might promptly adopt a constructive policy for dealing with the danger of widespread unemployment has had as yet no adequate development. Secretary Wilson has established in his department a Bureau for the encouragement of public construction by municipalities and other public bodies, and Secretary Redfield has written letters giving public endorsement to the policy of liberal expenditures of this character, but the executive officials can do little themselves without action by Congress. Many Federal buildings for which Congress had made appropriations, but upon which work was suspended or not begun, because of the war, might go forward, but costs have increased so that the original estimates and appropriations are inadequate, hence nothing is doing. Secretary Lane is working diligently upon a comprehensive plan of land development and settlement for soldiers, and it is to be hoped may be able to carry it through and have an appropriation to work with at the opening of spring. Aside from this there is no prospect that the Federal Government will help upon the situation.

The relations of the Federal Government to the railroads is a great misfortune at this time, although we do not mean that it would be better to have the roads tossed forthwith back to the owners, for the latter to struggle alone with all the difficulties in which the Government has involved them. A great amount of work might be advantageously done upon the roads and their terminals, and the industrial situation would be stabilized by such expenditures at this time, but neither the owners nor the Government are prepared to go ahead with them.

The public utility situation is closely related to that of the railways. A great amount of construction work might be done for the utility companies, but there is so little elasticity in the regulation of most of them that at this time when liberality in improvements would be of great public benefit they are obliged to cut improvement expenditures to the lowest possible stage.

A Constructive Program Needed.

There is greatly needed at this time a large and enterprising public policy which would organize and co-ordinate the activities of national, state and local governments, so as to create a large amount of work for the coming spring and summer. After that it is safe to say that the situation will take care of itself, provided unemployment can be averted in the meantime. The prestige and co-operation of the national government is required to develop such a move-

ment, and the good efforts of Secretaries Lane, Wilson and Redfield should be not only supported but enlarged and made a national policy. The railroad and utility companies should be enabled and encouraged to make improvements now, when labor will otherwise be idle and its potential value totally lost to the country. Extra costs are nothing compared with total losses and little compared with war expenditures, and this is the view that communities should take of the proposal. Of course the program should be elastic, so that no more work would be undertaken than necessary for the purpose, but unemployment should be prevented by a public-spirited nation-wide movement.

Effects of Heavy Taxation.

The policy of heavy taxation upon business profits begins now to show its repressive and unfortunate influence. There never was a time when the spirit of courage and enterprise was more needed than now. Secretary Wilson made a strong plea at a New York meeting a few days ago for business men to go ahead with resolution and public spirit to set the wheels of industry turning and provide employment to the wage-earning population. All who heard him realized the force of his arguments and the truth of his warning against the dangers which might develop from widespread idleness and distress. But these are times when serious risks attach to individual policies. The Government can do things in such an emergency, and if the cost is greater than in normal times there is compensation to the public from the benefit that has accrued to the general welfare. But an individual is so small a factor in the general situation that he cannot expect to materially affect it, or to receive any compensation for the losses he may suffer in battling with general tendencies. He wants to avoid losses, or, if he loses part of the time, have a fair prospect of coming out even on the average.

The odds against an investor are very heavy under the taxation proposed in the new law. Should he buy goods, or build, or hire labor for any enterprise? If developments are against him and he loses, the loss is all his own; if he is successful, the Government may claim 50 or 60 or 80 per cent. of the profits. The critics of business will say that what is left is enough. It might be enough if there were no losses, but there is no allowance for losses. It is not easy to keep gains ahead of losses in the business world, without any taxation; who dares move outside of the narrowest and most cautious policies with such odds as present taxation puts against him? Ordinary business in established routine will go on, but the courage which undertakes new enterprises, and which Secretary Wilson appeals to, has very heavy odds against it.

It is obvious that taxes must be heavy for the present, but it is well to understand their effects and to utter a word of caution against their being made heavier than necessary. If by spreading taxation over a longer period the spirit of enterprise can be revived and stimulated the country will be more prosperous and moderate levies will yield more than heavier ones.

Financial Affairs.

Time money is on a 5½ per cent basis with a limited amount of choice commercial paper going a little lower. Call money is about 4 per cent. The situation has tended toward relaxation throughout the month, although there has been no great decline in rediscounts at the Federal reserve banks, now the best test of banking conditions. On January 3 the total bill-holdings of the reserve banks were $2,120,133,000 and on January 24 the figures were $2,046,572,000. On the former date the bills secured by government obligations aggregated $1,545,274,000 and on January 24, they aggregated $1,498,298,000; at the former date all other bills, including open market purchases, aggregated $574,859,000 and on the latter date, $548,274,000. On December 27 the total holdings of government obligations by member banks of the reserve system were $2,054,352,000, and on January 17 they were $2,554,510,000, the increase being in Treasury certificates. "Other loans and investments" of member banks were $10,316,841,000 on December 27, and $10,126,378,000 on January 17. The amount of Federal reserve notes in circulation shows a reduction from $2,647,605,000 on January 3 to $2,466,556,000 on January 24.

The amounts alloted upon the four war loans thus far issued has been as follows:

First	$2.000.000.000
Second	3.808.766.150
Third	4.176.516.850
Fourth	6,989,047,000

The fifth loan campaign will be opened in the latter part of April and will be for $5,000,000,000 or $6,000,000,000. If the needs of the Treasury are any criterion it will be for the larger sum. Four issues of 4½ per cent. Treasury certificates, in anticipation of the loan, with total subscriptions of $2,537,718,000, have been distributed, and subscriptions to the fifth issue, which is for a minimum amount of $600,000,000 are now being received. The rate of interest and other terms of the next loan have not been announced. There is a practically unanimous opinion in banking circles in favor of five years as the time, with opinions ranging from 4½ to 5 per cent. for the rate. It is evident that popular interest in this loan will be much below that in previous ones, and it is urged that to obtain any general participation over the country the rate will have to be 5 per cent. On the other hand it is urged that anything above 4½ will unfavorably affect previous issues and the entire investment market, and that the fact that it is expected to be the last great loan will assure an

early recovery for the market, even though it should be temporarily affected.

Treasury disbursements were only about $70,000,000 less in January than in December, exclusive of loans to allies. The latter have fallen off appreciably.

The foreign exchange situation is gradually working in the direction of higher valuations on the dollar. It has been below parity with all the Scandinavian countries, and has crossed the line first at Copenhagen. Our advices from Buenos Aires state that a new credit is being arranged there for $200,000,000 in favor of Great Britain, and newspaper reports say it will be for $200,000,000 per year for three years. If Argentina grants credits on that scale for the sake of promoting her export trade what may the United States be expected to do?

The profits of the Federal reserve banks for the past year make the so-called "profiteering" corporations look like pikers. The New York bank made net earnings of 109 per cent. on its capital, and with the other banks were very large. These earnings were not made by taking advantage of the situation or by charging exorbitant rates, but as the result of an extraordinary volume of business at low rates. The unusual profits of private business are in large degree attributable to the same conditions, but the reserve banks have one important advantage in the present situation over all private business concerns, to-wit: they do not have to face shrinking values in their inventories.

The Secretary of the Treasury offered on January 14th, and is still receiving subscriptions for an issue of Treasury Certificates maturing June 17, 1919, and receivable in payment of income and excess profits taxes. They bear 4½% interest and may be had in denominations of $500, $1,000, $5,000, $10,000 and $100,000. A similar issue of Certificates was dated November 7, 1918, maturing March 15, and closed with subscriptions aggregating $794,172,500.

Organized Society.

A Socialist paper, published in New York, in a recent number gave the following editorial comment, referring to an utterance by an officer of this bank:

> ——————— of the National City Bank starts off the new year by declaring that the "ultimate purpose . . . is to minister to the comfort and welfare of the masses." It must be dreadful to look forward to 364 days of such barefaced . . . But, then, his salary is probably commensurate with the painful nature of the job.

The actual statement referred to was as follows:

> Upon good understanding between employers and wage-earners prosperity undoubtedly depends. There is no end of the work which ought to be done in the world, and the ultimate purpose of all of it is to minister to the comfort and welfare of the masses.

The sneer is of no importance except as revealing that this Socialist writer is unconscious of living in a co-operative society, and of the fact that business is successful just in the degree that it makes itself serviceable to the community. Every business depends for success upon its ability to minister to the wants of the public, and must demonstrate that ability and win public favor under the constant test of competitive service. No one has any hold on the public except as he can render service.

No investment is worth anything, or can have standing in any financial market, unless it is based upon a value arising from public service. It must be shown to meet a social need in a manner that will secure at least a share of the popular patronage, and every new business is expected to justify itself by showing that it can render a new or superior service. Old investments lose their value if new ones render better service, and there is the familiar spectacle of long-established business houses passing into decay and oblivion because unable to keep up in service with younger houses in the field. The study of every business organization and every individual entitled to any position in the business world is how to improve the service it is rendering to the public. Any man who has a new idea of practical usefulness to the public has a career assured. Emerson said that if any man could make a mouse-trap better than all others the world would make a beaten track to his door.

Private Enterprise for Public Purposes.

The construction of railways, the boring of tunnels, the building of ships and port works, the opening of mines, the improvement of lands, the building of houses, the development of machinery, the operation of factories, the practice of the professions, the activities of merchants, bankers, brokers and all the specialists developed by the varied wants of the people, are for the purpose of supplying the wants of the public. The fact that compensation is required, and that the primary motive is profit, does not alter the service or validity of the organization. The organization accomplishes an exchange of services. The real pay of each member is not in money but in the services and products of others. Every honest person wishes to give the fair equivalent of what he receives. What is a fair equivalent between widely dissimilar services may be a fair question, but no better method of determining has ever been found than the free bargaining of the market place. Moreover, many complaints of unequal compensation are made in ignorance of real conditions, and without regard to costs and compensations which do not appear on the surface.

The Price of Individual Liberty.

It is not denied that there are many maladjustments in the workings of the industrial organization, but most of them are due to the liberty of choice and freedom of action which is allowed to the individual. Each person is free, so far as

circumstances will permit, to live his own life, providing he does not unduly interfere with others, to choose his occupation, live where he wants to, and in a general way govern his habits and manage his policies as he pleases. Each farmer may plant what he chooses, and if with the vicissitudes of the weather and all market conditions it happens that too many plant one thing, the price for that year may be below the cost of production. And if an undue number of people prefer to live in towns instead of in the country, it may be that the cost of food will become very high as compared with the wages of town industries. Conditions are continually changing in the industries, so that a surplus of labor may develop in given industries and places. In general the responsibility is upon each individual to order his own life and to find the place in the industrial organization where he will be useful; perhaps society might well do more to protect the individual from the vicissitudes with which he must contend, and to help him to achieve his greatest usefulness. That is always a proper subject for consideration, and it grows in importance as population increases and the industries become more specialized.

The Course of Social Evolution.

The business organization is what it is not because it was so planned or any authority or concerted effort made it so, but as the result of natural development under the free play of the evolutionary forces of society. It is still subject to change by the same forces and is changing all of the time. It will surely take the form best adapted to serve the wants of the community as the community itself changes and develops. But this means that it will be gradually changed by the business community itself, through the competitive efforts of many minds to render the most satisfactory service, and not by the plans and agitation of theorists outside of the business community, or by having the business of the country taken over by the political organization.

That the business organization constantly grows more closely co-operative is not to be questioned, nor is there any reason for setting bounds to this natural progress. The joint stock company is a very practical form of co-operation and the most progressive corporations seek the largest possible distribution of their stock among employes. The profits of owners and proprietors, where they exceed living expenses, are returned to industry for its development, thus serving the joint interests of owners, employes and consumers. There could be no industrial progress without profits, and large profits, although generally viewed with such disfavor, result in more rapid industrial and social progress. If the industries were owned outright by the state it would have to provide capital for the development, and as much of it as is provided now, if progress was to go on at the same rate. Mr. Armour testified before a Senate Committee last week that 71 per cent. of all the profits of the Armour business since it was incorporated had been retained in the business to enlarge its services and we have heretofore noted that in addition to this capital it has sold within the last year $60,000,000 of preferred stock to the public to raise capital, and borrowed $150,000,000. To the extent that capital required to enlarge the packing industry is not created by that industry it must be provided from the profits of other industries. Likewise the Government Railroad Administration is asking for $750,000,000 from the Government as working capital for the roads, and to the extent that capital for operating the roads is not provided by their surplus earnings it must be provided from the surplus earnings of other industries, or transportation service will deteriorate with greater cost to the public than higher rates will impose.

With the increasing supply of capital, however, and the growing development of industry, the distribution of product to the public constantly increases, and the intelligence and capacity of the average man constantly increase, giving him a more potent position in industry and a larger share in its management. He comes into this influence inevitably as he learns how to use it effectively, and nobody can keep him out of it then. Society is thus inherently and inevitably progressive.

Different Kinds of Socialists.

To the theory of socialism which holds that this natural progress will finally lead to complete equality of rewards, or by the development of altruism to the elimination of selfishness, so that individuals will find their chief compensation in working for the common good, there is no need to take issue, but evidently the Bolsheviki and the writer of the above paragraph are not content with this view and have not themselves reached this stage of altruism.

The revolutionary socialists do not like to admit that brains in organization and management are any factor in production or that thrift is a social virtue. They would eliminate recognition and compensation for both. They would get rid of all the leaders in industry, with their pay and their authority. This was the theory upon which the Bolsheviki started out in Russia, but after about six months of experience Nicolas Lenine came to the conclusion that it would be advisable to at least temporarily modify the program. In a statement published in the *Pravda* of Petrograd, April 28, 1918, he said that "the success of the revolution depends on the ability for practical organization." He said that they "must effect a complete change in the mood of the masses," and "turn them to regular, uninterrupted and disciplined labor." He proposed that they purchase the services of "a thousand first-class scientists and specialists" even though they had to pay each of them ten, twenty-five or even fifty thousand

dollars a year, and said they would be cheap at the price.

No doubt they would, but the whole doctrine and purpose of the industrial revolution would be swept off the board, for that is about as much as the capitalists and managers of industry get now for themselves, after allowing for the profits retained in industry for its development. It would not be worth while, even in the United States, where there are more large private fortunes than in any other country, to overturn the whole social order merely to upset the few individuals who spend over $50,000 per year on themselves and their dependents. Lenine's discovery did not appeal to his followers and was not adopted, so far as we know.

Cooperation a Natural Development.

There is no objection and no serious obstacle from outside to the development of socialism within our present society by those who wish to co-operate with each other. A great many societies have been formed for that purpose, and if the system realized advantages they would have grown. They failed to grow because the promised results were not realized and they restricted the liberty and initiative of their members. It is individual initiative and ambition which carry society forward, but socialists as a rule are not thinking about getting forward. Their minds are fixed on dividing up what there is. There are no end of proposals for mutual house-keeping arrangements, and no doubt economies can be effected thereby, but the average American family would rather have the independence and privacy of its own home.

If employers are an incubus upon industry, there is the possibility of eliminating them by forming co-operative associations among wage-earners. The strong unions accumulate large funds and in some lines certainly could enter business on their own account. And so if middlemen are superfluous they can be dispensed with. Co-operative organizations have achieved some great successes, and the whole field of industry and business is open to them. There is a challenge out constantly for the improvement of the existing business organization. Every method, system and service is open to criticism and competition, and no individual or group is barred from a trial.

Business Organization vs. Political Organization.

There is no better way of trying out proposals to substitute new methods for old than by the competitive test. The most economical and serviceable method should be adopted, but it should prove its superiority, and not expect to be adopted upon a theoretical showing. In many states farmers' mutual companies, for insurance protection, and for the operation of creameries and elevators, are well established. They have demonstrated their service. Other, but less numerous, mutual companies handle live stock, and merchandise, and great numbers of local banks are controlled by farmer stockholders. All of this is a natural and gratifying development, and nobody can set any bounds to it. The movement is free to go and ought to go as far as it can demonstrate its efficiency, and that may be farther from year to year. If the farmers wish to buy up the stores, mills, packing houses, banks and newspapers in localities where they are able to do it, there is no ground for objection, so long as they use only their own money.

The danger in any movement of this kind is in the substitution of the political organization for the business organization. The successes among co-operative organizations have been made by keeping the control among those who actually contribute to the support of the organization. The successful organizations are independent and self-supporting and do business on business principles. A political organization does not do business on business principles. The qualifications that get a man elected to public office are not necessarily the qualities that make a capable business man. The right to have a voice in the administration of business affairs is not properly based upon the same reasons as the right to have a voice in making of laws affecting personal rights and liberties. The management of a creamery should be in the hands of the owners or patrons of the creamery, and so of other enterprises in which the use of capital is required, or where support is dependent upon the patronage of a portion of the community. This is sound policy not only because it promotes the success of the enterprise, but because it is just and gives a proper recognition and incentive to those who contribute to the success, at the same time laying no burdens upon those who are not directly interested and whose activities and responsibilities are in other lines.

Rights of the Public.

In this great co-operative organization, with groups of people exchanging services with each other and accepting dependence upon each other for mutual advantages, it should be evident that they owe certain obligations to each other. As they all derive benefits from the organization, they are interested in general rules which make for the efficiency of the organization, and they owe loyalty and honest service to it. This is not a question of class interests, but of obligations between people in the same walks of life. The employes of the shoe industry are making shoes for the workers in all the other industries, and if they adopt unreasonable rules increasing the cost of production they are not dealing fairly by their fellows in the other industries with whom they are exchanging products, and this includes nearly everybody in the industrial world.

This obligation to the public has many applications, but one of the most striking was that which appeared during the last month, when the

employes of the municipally operated ferries in New York City struck for no grievance or claims of their own, but to help, by increasing the inconvenience of the public, the union of harbor employes in a contest with private employers. The following letter, addressed by the Mayor of New York City to an official of the Central Federated Union who had complained because steps had been taken to keep the ferries running, gives such a straightforward, illuminating and irresistable statement of the issues involved that we think it should have wide circulation. The statement has the more force in New York City because Mayor Hylan has never been accused of unfriendliness to labor or partiality for capital.

"CITY OF NEW YORK,
"OFFICE OF THE MAYOR.

January 15, 1919.

"Mr. Ernest Bohm, Corresponding Secretary Central Federated Union, No. 210 East Fifth Street, New York City:

"Dear Sir:—I am in receipt of your letter of January 11, in which you assume, on behalf of organized labor in Greater New York, to condemn the action of the city authorities in using city property and city employes to prevent the starvation not only of the wounded soldiers and sailors in the hospitals on Staten Island and in the other public institutions, but *babies and children* as well, who were to be sacrificed if necessary as a cold-blooded piece of strategy as a part of the fight plan of certain labor leaders.

"The city administration and the people of Staten Island had no part in the controversy, neither did the sick and helpless in the hospitals.

"Before the United States Shipping Board in Washington, on November 29, Captain Maher, representing the committee of the marine workers, stated that the municipal ferries were not and would not be involved, and admitted that there was no dispute about the rate of wages nor the hours of employment.

"So far as the city and the municipal ferries were concerned there was no dispute about the rate of wages nor the eight-hour day. The city employes, enjoying the benefit of the civil service, are a favored class. They are protected in their wages and in their hours of labor and in their employment. If, under these circumstances, civil service does not assure the city service, then civil service is a failure.

"President Delehunty, of the Marine Workers' Affiliations, stated, so I am informed, that he recognized the situation of the people of Staten Island, where there were hospitals with sick and wounded, was exceptional, and that they should not be made victims of a fight which was not of their making or under their control.

"Mr. Maher, however, said, 'I will not consent to any change in policy. I do not care how much suffering or inconvenience may come to anybody. The more inconvenience and the more hardships there is inflicted on the people, the better will be our chance of winning.'

"This is a wicked, outrageous, cruel and inhuman policy. The Kaiser, because he had physical power to do so, rode brutally over the unfortunate people of Belgium, regardless of the fact that they were no party to his quarrel, justifying himself on the ground of 'military expediency.'

"Though he gained a temporary success, he lost the respect of the entire civilized world and we can be sure that the American people will not stand for that sort of barbaric warfare on the defenseless and helpless people of any American community.

"When Corporation Counsel Burr called attention to the fact that city employes who accepted the protection of the Civil Service Law had a different obligation than men privately employed, Mr. Maher said, 'I have no regard for the Civil Service Law: the laws are of no use to workingmen anyhow; the only laws that are any good are those passed by the unions; they can be enforced by the unions if the unions are strong enough and can be repealed by the unions when necessary without being subject to any interpretation by the courts.'

"Your organizations evidently do not understand the facts or realize that the spokesmen for the unions were satisfied to have organized labor in this country regarded as disciples of Lenine and Trotsky, not only defiant of the law of the land, but willing to sacrifice the lives of people who were not only helpless but in no way responsible for the dispute of the marine workers.

"The action taken by Mr. Maher and his associates with respect to the municipal ferries and the people of Staten Island, and the unlawful attitude in defense of that action, is going to do immense harm to the cause of labor and the municipal ownership and operation of public utilities.

"The municipal employes had no grievance: the municipal ferries run between Staten Island and Manhattan, carrying necessities of life to the permanent residents, as well as to the sick in Sea View Hospital, the wounded soldiers and sailors, the indigent and the poor, and the babies who must have milk or die.

"Many a man who ordinarily would favor municipal ownership is going to hesitate if he is made to feel that because of a dispute between a private employer and a private employe, not related in any way to the public service, every city employe can be arbitrarily ordered out on strike in defiance of law and order.

"I have been for many years, and am, a member of a labor union in good standing, and every sane, practical effort for better hours and better wages for the toiler has my heart's quick sympathy and approval. But the methods of the Bolsheviki and the I. W. W. can only bring us to the condition of Russia.

"Might does not make right, and brutal, strong-arm methods can never win any real substantial victory for the cause of organized labor any more than it did for the Kaiser. Furthermore, the people of this Republic will not stand for it from any man or set of men.

"I know the majority of union men are honest, fair and upright. They do not want the great power of organized labor to ever become the personal weapon of any of their leaders and so an agency for the destruction of the foundations of this great country, any more than they want the profiteer and special privilege seeking interests to rob them of their hard-earned dollar.

"The law of this State places upon the policeman, fireman, engineers and other employes a special duty to protect the health and lives of all the people. They are public servants who must not be interfered with by any special interests or made the agents of any side of any controversy.

"When Mr. Maher reckoned to use his great power to cut off the supplies to the sick and helpless of this community and commanded the city employes to back him up, he not only violated the law of humanity, but by attempting to terrorize the city employes into violating their obligations to all the public, Mr. Maher and these employes run foul of the penal law regarding conspiracies against the public health. This, among other things, is as follows:

" 'If two or more persons conspire to commit any act injurious to public health, public morals, or trade or commerce, etc., each of them is guilty of a misdemeanor.'

"All signs point to a slowing down of commercial and industrial activity in this country during what is commonly known as the 'readjustment' period. That means we are going to have hard times for a while.

"I am afraid that our great trouble is going to be not rates of wages nor hours of work, but for many to find work at all.

"One of the things that your organization ought to do for its members is to advise them of the likelihood of hard times that may come, so that they may now try to lay aside enough out of their earnings to carry them over the lean period.

"I have a duty to perform under oath of office, and the strong-arm, unlawful methods used by some vicious labor leaders, the profiteers, in the necessities of life, the special privilege seeker and the exploiter of the people, so far as I am concerned, one and all, without discrimination, will be treated as the law directs.

"Let those to whom unionism has been a help and protection in the past watch out that the machinery of organized labor is not discredited and wrecked by Bolshevik ideas and unlawful methods.

"Very truly yours,

"JOHN F. HYLAN,
"Mayor."

Answering another union official who entered a similar complaint the Mayor did not go into the argument so fully as above, but the letter is no less noteworthy. It was brief and to the point, as follows:

Answering your peremptory demand to know "why I took the stand I did" in the recent sympathetic strike of certain city employes, who had no grievance of their own as to wages or hours, I can only offer in explanation, but without apology, a certified copy of my oath of office as Mayor of this city.

It would be unjust to attribute the language quoted by the Mayor in the first letter, or the sentiments thus expressed, to organized labor as a whole. No body of men should be judged by its violent representatives, but it is certainly unfortunate for the cause of organized labor that men lacking in a proper sense of obligations to the public should represent it in a controversy. Labor complains that employers are unwilling to accept collective bargaining, but is it strange that employers should be reluctant to place themselves in the power of men whose methods are so arbitrary? These union officials are probably not as bad men as their language would cause one to suppose, but they are utterly unbalanced upon the subject of winning their fight. They had lost all sense of their relations to the public, and were ready to sacrifice interests vastly more important than their own.

The Bond Market During January.

The bond market during January has been less active than through December, but the volume of business still remains large. Transactions in Liberty Bonds continue to furnish the largest percentage of business on the Stock Exchange. The average price of forty listed bonds, as compiled by *The New York Times*, shows a decline of about one point for the month. The certainty of another Government Loan before we are through with war financing, may have caused a somewhat depressing influence on bond prices. Such factors, however, do not affect intrinsic values.

The three largest issues of the month, $25,000,000 Anaconda Copper Mining 6% Bonds, due 1929, $40,000,000 American Telephone and Telegraph 6% Notes, due 1924, and $25,000,000 New York Telephone 6% Debentures, due 1949, were all quickly sold on bases of 6.25%, 6.17%, and 5.93%, respectively.

Prices for Liberty Bonds, during the month, have shown rather marked declines with the exception of the First and Second 4's, which have advanced on the strength of the Secretary of the Treasury's recommendation that the conversion privilege into First and Second convertible 4¼'s be reopened. The downward tendency may be attributed to liquidation by holders of the fourth loan who did not care to make the final payment of 30% due January 30th, to continued selling by small investors, and to a tendency of some large investors to dispose of a part of their holdings.

Municipal Bonds.

The municipal bond market has shown signs of weakness, due perhaps to the decline in the 4% and 4¼% Liberty Bonds to a basis of from 4.45% to 4.80%, depending upon the issue, and also due to the fact that several states and municipalities are in the market for funds.

Local traction bonds have shown a declining tendency. The Brooklyn Rapid Transit receivership has acted as an unfavorable temporary influence, although it is undoubtedly for the best interest of the security holders that the difficulties of the company, due to a large construction program under war conditions, will be worked out under the supervision of the court. The condition of this company, on account of large expenditures for new subways, which do not immediately become self-sustaining, should not be too readily accepted as a condition of Public Utilities in general.

Prices of foreign government bonds have been generally maintained at their high December levels. A large percentage of the $150,000,000 United Kingdom of Great Britain and Ireland 5½% Notes, due February 1, 1919, are being converted into 20-year 5½% bonds. This fact indicates that our investors are willing to permanently leave their funds in the obligations of foreign governments with sound credit. The general interest of investors in foreign securities has increased to such an extent that the New York Stock Exchange now issues a special daily list of closing prices for all listed foreign securities. High grade bonds are still selling on a basis to yield considerably more than can be expected in normal times and unusual investment opportunities are still available in all classes of bonds.

Issues of the Month.

The following issues are the more important offerings made during the month.

$40,000,000	American Telephone & Telegraph 6% Notes, due February 1, 1924, at 99¼ and interest, to yield about 6.17%.
25,000,000	Anaconda Copper Mining Company 6% Bonds, due January 1, 1929, at 98¼ and interest, yielding 6¼%.
1,000,000	Anglo-American Mill Co. 7% Notes, due January 2, 1920-1924, at prices to yield 7¼% to 7¾%.
2,750,000	Arkansas Louisiana Highway District 6% Bonds, due Sept. 1, 1921-1939, at prices to yield 5.50%.
1,650,000	Barber Company, Akron, Ohio, 7% Notes, due January 1, 1922, at 98½ and interest, yielding better than 7½%.
1,000,000	Bird & Son, Inc., 6% Notes, due January 1, 1929, at 98½ and interest, yielding about 6.20%.
4,000,000	Brunswick-Balke-Collender Co. 6% Notes, due January 1, 1920-1929, at prices to yield 6% to 6.55%.
7,500,000	Canadian Northern Railway 6% Equipment Trust Certificates due July 1, 1919-1929, at prices to yield 6% to 6¼%.
10,000,000	Cities Service Company 7% Debentures, due January 1, 1966, at 100 and interest, yielding 7%.
2,500,000	Cleveland Electric Illuminating 5% Bonds due April 1, 1939, at 94½ and interest, yielding about 5.45%.
2,500,000	Cohoes Power & Light Corp. 6% Bonds due January 1, 1929, at 102½ and interest, yielding over 5.65%.
5,000,000	Laclede Gas Light Company 7% Bonds, due January 1, 1929, at 100 and interest, to yield 7%.
1,000,000	Little River Drainage District, Mo., 5½% Bonds, due October 1, 1934-1935, at prices to yield 5¼%.
700,000	Michigan Light Company 5% Bonds, due March 1, 1946, at 89 and interest, yielding 5.80%.
3,600,000	Milwaukee Electric Railway & Light Co. 7% Notes due November 1, 1923, at 100 and interest, yielding 7%.
700,000	Municipal Service Company 6% Bonds due December 1, 1928, at price to yield 7%.
25,000,000	New York Telephone Company 6% Debentures, due February 1, 1949, at 101 and interest, yielding about 5.93%
1,000,000	Northwest Utilities Company 6% Notes due January 1, 1922-1929, at prices to yield 7%.
1,265,000	Pacific Power & Light Company 5% Bonds, due August 1, 1930, at 89¾ and interest, yielding over 6¼%.
3,000,000	Public Utilities Company, Evansville, Ind., 6% Bonds, due January 1, 1929, at 95½ and interest, yielding 6.65%.
8,000,000	Southern California Edison Company 6% Bonds, due February 1, 1944, at 98 and interest, to yield 6.16%.
8,000,000	Southern California Edison Company 7% Debentures, due January 15, 1921, to 1928, at par and interest.
2,900,000	Washington Water Power Company 6% Notes, due February 2, 1920, at 99¼ and interest, yielding about 6¾%.
1,603,000	Jersey City, N. J., 4¾% Bonds, due December 1, 1920-1958, at prices to yield 4½%.
5,000,000	Miami Conservancy District 5½% Bonds, due December 1, 1927-1946, at prices to yield about 5%.
3,000,000	Province of Ontario 5% Bonds, due January 1, 1922, at price to yield 5⅞%.

British Imperial Problems.

The election of the Coalition Government in Great Britain, composed as it is largely of members of the Unionist party, and the disruption of the Liberal party, with the removal from public life of so many of its old chiefs, probably means that a definite policy will be adopted to promote closer industrial relations throughout the Empire. Mr. Asquith, who is defeated, was an uncompromising advocate of the policy of Free Trade, and it is probable that his chief reason for standing out against the maintenance of a Coalition ministry dur-

ing the period of reconstruction was his wish to keep himself free to oppose the various proposals for imperial preference, protection to home industries and tariff alliances which he anticipated. He believed that the general policy of Free Trade was vindicated by the strength which England displayed in the war, and while he might have conceded that certain important branches of industry had been unwisely neglected, and possibly that the influence or patronage of the government should be exerted in such instances, his attitude in the main was unchanged.

Lloyd-George has been always a member of the Liberal party, and a supporter of Free Trade, but his interest in it has been less pronounced than in other policies, and he is distinctly an opportunist, using that word in no objectionable sense but to mean that he feels free to deal in what he considers a practical manner with situations as they arise. Without doubt the master purpose in his mind now is to develop the resources of the British Empire and draw together in interest as closely as possible its scattered parts. A majority of his colleagues in the ministry are probably favorable to a system of preferential tariffs within the Empire.

Imperial Ties.

Of course all British statesmen desire the development of imperial resources and to strengthen the ties of interest between the dominions and the mother-land. The real question is whether with their diverse interests any general imperial policy which puts constraint upon the natural expansion of their trade will serve these purposes.

England is keenly appreciative of the wonderful spirit manifested by the dominions in rallying to her support in the war, but men like Mr. Asquith attribute this spirit to the absolute freedom enjoyed by the dominions in the management of their own affairs. They say that the union which exists in the British Empire is held together by common ideals, and would be weakened rather than strengthened by an attempt to tie up their interests in any manner which might develop antagonisms.

Of course the British Parliament would not assume to pass tariff legislation applying to overseas dominions, but would it be practicable for an Imperial Parliament to do so, or for the dominions acting separately to conform their legislation to a common policy for the purpose of favoring trade within the Empire? They have done this to some extent, but the results have not been marked. The Canadian tariffs give a preference to Great Britain, but the flow of trade between Canada and the United States apparently has not been materially affected thereby. The fact is that the duties are designed primarily to promote manufactures in Canada and when these do not supply the market the business by reason of proximity and choice of articles comes naturally to this country. At this moment, when the devotion of the Canadian people to the mother country is beyond all question, the western provinces are agitating for a reciprocity treaty which will give closer relations with the United States. And so the attitude of Australia, with all the evidences she has given of loyalty to Great Britain, is that of an independent country which wishes to increase her prosperity by trade relations wherever they can be advantageously formed.

Preferential Tariffs.

Preferential tariffs in the dominions in favor of British products naturally call for similar favors for dominion products in Great Britain, and here the chief difficulty of the proposal arises, because the latter products are almost wholly food stuffs and raw materials, the cost of which the people of England cannot afford to have increased by any policy of discrimination. Her position as an exporter of manufactures to the markets of the world will not permit her to either raise the cost of her raw materials or the cost of living to her population. She gets her food supplies now largely from South America, and has a large market there for her goods; she cannot afford to discriminate against this trade and this is illustrative of other relations.

The London Economist in its issue of August 24, 1918, after a tabular statement of the imports of the United Kingdom from India and the dominions, for 1913, the last full year of trade, sums up its conclusions as follows:

> Out of merchandise to the value of just under $750,000,000 imported into the United Kingdom from Australia, Canada, India, New Zealand, and South Africa goods only to the value of $24,016,110 can, even under the rough headings of official classification, be classed as manufactures, and when these items are further dissected even this paltry total (of which the share of the four Dominions is only just over $7,500,000 would probably have to be largely reduced.

The unity and perpetuity of the British Empire is assured by the events and sacrifices of the past four years. It has been shown to be a real union by the greatest of trials, but there are evidently some serious obstacles to making it a geographical or industrial entity. It is a question whether there is any better way to secure its unity than by allowing each of the dominions to seek its own highest prosperity in its own way.

THE NATIONAL CITY BANK OF NEW YORK

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, MARCH, 1919.

General Business Conditions.

THE general feeling about the outlook for business this year is at least as good as it was a month ago and on the whole probably better. This is encouraging, because at that time pessimistic sentiment was increasing, and the idea was prevalent that price reductions were to be the order of the day and that unemployment would increase rapidly. Neither of these predictions has been verified, and a good many people who were expecting their verification are not so certain about it now. There have been declines during the month and more declines than advances, but the declines have been orderly and accomplished in a manner which has contributed to confidence rather than to demoralization, and there have been developments giving strength to the situation. Enterprise still hesitates, but the volume of retail trade is large, which means that the consumption of staple goods is at a high rate. The steel mills are still working at a pace which before the war would have been close to their capacity, and although new orders are not coming fast enough to cover production they are in fair volume. There is talk of further price reductions and some will probably be made in time to stimulate spring business.

In textiles the mills are running on part time and orders are light, but retailers and jobbers are working down their stocks, and the situation as a whole looks stronger than it did a month ago. There have been further moderate reductions in cotton goods, which now perhaps average 35 per cent. below the high level. In woolens the leading producer has opened the lines which will be offered at retail next fall upon a basis 15 per cent. below the opening a year ago for last fall's retail trade, and 35 per cent. below the high level of last year. These figures inspire confidence.

What is required is more confidence that the bottom has been reached in price reductions for the present and this confidence seems to be growing. In textiles goods are down to the present basis of costs, and manufacturers are willing to do business without profit for the sake of keeping their organizations intact.

There does not seem to be any good reason for expecting further declines before living costs are reduced and this is not likely until after another crop of food stuffs has been marketed. The situation in food stuffs is stronger than a month ago. Butter has recovered 10 to 12 cents per pound in February. The foreign demand for meats is enormous and will be larger as soon as Germany has arranged credits which will allow purchases to be made.

Building permits in cities reporting to Bradstreets showed a gain in January, and there is more talk than heretofore that construction must go ahead in spite of high costs. The Governors of all states have been invited to meet at the White House to confer upon a concerted plan for promoting public improvements and especially road work. Although unemployment has been increasing it is not excessive for this season of the year, or extraordinary under the circumstances. It is largely in the cities where war work has been discontinued to which men have been attracted from farms and rural communities. The number of men out of work can be readily absorbed by the farms and other outdoor industries when spring opens up.

Banking Conditions.

The money market in New York has turned firmer, an inevitable reflection of the approaching Federal tax-payments, the first of which must be made on March 15, and the Victory Loan campaign which will come a little more than a month later. In the last half of February the stock market showed symptoms of hopefulness, sales increasing with a moderate advance of prices, and the call money rate stiffened, touching 7 per cent. on one day. For the last four days of this month the range was 5½ to 6, with the bulk of the loans at 5½ per cent. Time money on collateral moved up to 5½ and commercial paper is about the same.

No great change has taken place in the condition of the reserve banks in the first two months of 1919. We give below the figures for the principal items in the consolidated statement, as of February 21, December 27 and October 25, the

last date being the next one following the close of subscriptions to the Fourth Liberty Loan:

	Feb. 21	Dec. 27	Oct. 25
Cash reserve	$2,191,532,000	$2,146,219,000	$2,098,169,000
Bills discounted:			
Secured by Gov't obligations ...	1,596,458,000	1,400,371,000	1,092,417,000
Other security..	221,996,000	302,567,000	453,747,000
Bills bought in open market ...	269,920,000	303,673,000	398,623,000
Total bills disc'd.	2,088,374,000	2,006,611,000	1,944,787,000
Gov't long term securities	28,095,000	28,869,000	28,251,000
Gov't short term securities	147,123,000	282,677,000	322,060,000
Other earn'g assets	4,000,000	13,000,000	24,000,000
Total earn'g assets	2,263,596,000	2,318,170,000	2,295,122,000
Gov't deposits ...	205,675,000	63,367,000	78,218,000
Due members, reserve acct.	1,563,912,000	1,587,318,000	1,683,499,000
F. R. notes in circulation	2,466,248,000	2,685,244,000	2,507,912,000
F. R. bank notes in circulation	133,465,000	117,122,000	58,859,000
Percentage of total reserve to deposit and note liability	52.2	50.6	49.6

The total of bills discounted is larger at the last date than at either of the others, but the increase is all in bills secured by Government obligations, and represents rediscounting by members for the purpose of taking up their quota of Treasury certificates. The fifth and sixth offerings of these certificates were closed during February, and the total of these issues in anticipation of the Victory Liberty Loan is now $3,845,678,000. The absorption of this amount of Treasury obligations must be taken into account in considering changes in the condition of the banks. Since October 25 the principal payments upon the Fourth Liberty Loan have been made and the above amount of Treasury certificates taken up, besides a considerable amount of Treasury certificates which are receivable for taxes, the amount of which has not been announced. Notwithstanding these great demands the aggregate loans and investments of the reserve banks are less than on October 25, 1918.

Condition of Member Banks.

The member banks reporting to the Federal Reserve Board have made the following showing for the dates given:

	Feb. 14, '19	Dec. 27, '18	Oct. 25, '18
U. S. bonds to secure circulation.	$263,111,000	$268,185,000	$267,510,000
Other U. S. bonds	723,202,000	833,985,000	1,018,439,000
U. S. certificates of indebtedness.	1,742,093,000	953,550,000	949,431,000
Total U. S. securities	2,728,406,000	2,055,720,000	2,235,380,000
Loans secured by U. S. securities.	1,169,966,000	1,269,409,000	1,165,738,000
Other loans and investments	10,068,695,000	10,334,266,000	10,635,191,000

It will be seen that although the bank holdings of Treasury certificates have increased, the holdings of other loans and investments have decreased since October by over $500,000,000, and that in the aggregate the amount of bank credit employed is now slightly below what it was at that time, notwithstanding the immense payments into the Treasury in the meantime. The payments have been accomplished by the circulation of credit, the Treasury receipts when disbursed cancelling enough indebtedness to offset the new borrowing. If now the transition could be made from war industry to peace industry without slackening production or earnings, it is evident that as soon as the Government's war bills were paid the country would have a great stream of new capital pouring into the general investment market and distributed out again into new enterprises for the enlargement of production and the improvement of living conditions. Unfortunately, the transition cannot be accomplished with the unity and energy which characterize war operations, hence we already see a falling off in the earnings of industry which nullifies to a great extent the gains which might be expected to accrue from the cessation of war waste. The Government expenditures will decline, but the loans and taxes which are yet to be met will bear heavily, because earnings will be reduced. It should be understood that this reduction of earnings, and any period of hard times which ensues, is not the result of the war in any other sense than that the war has disorganized industry for the time being. There is just as much work to be done as ever—more pressing need for it than ever—but the world has been thrown into such disorder and confusion, that industry is interfered with, the production of wealth is reduced and everybody must suffer while this state of affairs continues.

Middle West Loans are Lower.

Four of the Federal reserve banks showed a reduction of discounts from October 25th to February 21st, and eight showed an increase. The reductions were in the middle west, with the exception of Atlanta, and the most notable case was that of the Chicago bank. The figures for all the banks at the two dates were as follows:

	Feb. 21, 1919	Oct. 25, 1918
Boston	$158,022,000	$145,124,000
New York	795,680 000	722,973,000
Philadelphia	191,644,000	122 261,000
Cleveland	164,197,000	137,661,000
Richmond	103,042,000	69,556 000
Atlanta	83,185 000	87,242 000
Chicago	206,071,000	274,955,000
St. Louis	71,594,000	77,457,000
Minneapolis	51,016 000	42,185 000
Kansas City	81,178,000	87,422 000
Dallas	52,718,000	48,077,000
San Francisco	130,027,000	129,874,000
	$2,088,374,000	$1,944,787,000

The Federal reserve banks gained $93,363,000 in reserve money from October 25 to February 21, and the amount of Federal reserve notes in circulation diminished by $218,996,000. Against this reduction of currency in circulation there was an increase of $16,343,000 in Federal reserve bank notes, issued to take the place of silver dollars melted for export. The mutual savings banks of New York City gained $75,103,642 in deposits between November 1 and January 20, most of it hoarded money.

It is a notable fact that notwithstanding the opportunities for investing savings in government obligations at higher rates of interest,

deposits in the British postal savings banks grew faster during the war than in any previous period of the same length. In fact in the five years 1914-19 the combined increase in the Post Office and Trustee savings banks—the two systems in use in Great Britain—was $265,000,000 against an increase in the ten years 1904-14 of only $215,000,000. The postal savings banks pay 2½ per cent.

The Victory Liberty Loan.

The next loan, which is expected to be the last of the big war loans, will be offered, if the pending bill passes, in the form of United States notes, running not less than one year nor more than five years, the terms of which in other respects will be largely fixed by the Secretary of the Treasury in his discretion. The total amount of notes authorized is $7,000,000,000. The time of offerings, amount in any series, maturity within the above limitations, and interest rates, will be determined by the Secretary, but any series may be redeemable before maturity (at the option of the United States) in whole or in part, upon not more than one year or less than four months' notice.

The feature of the offering will be the variety of choice afforded the public as regards exemption from taxation. There will be an opportunity for the individual of large income to buy notes similar in this respect to the First Liberty bonds, which were completely exempt except as to inheritance or death taxes, and there will be opportunity for the individual who does not value exemption from the surtaxes or excess-profits taxes to buy notes which are subject to these but exempt from the normal income tax. Interest rates will vary with these exemptions, and the subscriber will pay his money and take his choice. Secretary Glass argues that with the great amount of municipal securities and Federal Land Bank bonds, all exempt from Federal taxation, now offering, the Federal Government itself should offer something to the class of buyers who seek tax-exempt securities.

The four classes defined in the law are briefly described as follows:

1. Exempt, both as to principal and interest, from all taxation, except inheritance or estate taxes, now or hereafter imposed by the United States, State or City.
2. Exempt, except estate or inheritance taxes, and graduated income, known as surtaxes, and excess and war profits.
3. Exempt from graduated income taxes, excess profits and war profits, when holdings do not exceed $30,000.
4. Exempt both as to principal and interest from all the above taxes, except inheritance taxes and all incomes, excess profits, and war profits, upon the incomes or profits of individuals, partnerships or corporations.

The bill also extends the policy adopted in the act authorizing the Fourth Liberty Loan, by increasing the exemptions upon bonds of the earlier loans, with limits as follows:

Bonds absolutely tax free in addition to the 3½ per cent. First Liberty Bonds, $50,000.

Fourth Liberty Bonds, tax free until two years after the termination of the war, $30,000.

First Liberty Bonds, converted; Second Liberty Bonds, converted or unconverted; and Third Liberty Bonds, until two years after the termination of the present war, $45,000.

First Liberty Bonds, converted; Second Liberty Bonds, converted or unconverted; Third and Fourth Liberty Bonds, until five years after the termination of the present war, $30,000.

First Liberty Bonds, converted; Second Liberty Bonds, converted or unconverted; Third and Fourth Liberty Bonds, so long as the owner holds $6,667 of notes originally subscribed for by him, $20,000.

The bill also reopens the conversion privilege on the First and Second Liberty 4's into First and Second Liberty Converted 4¼'s upon terms to be hereafter prescribed by the Secretary of the Treasury.

These provisions offer an inducement to holders of previous issues to subscribe for the notes, and are calculated to improve the market position of the old issues.

A cumulative sinking fund of 2½ per cent. is created to become operative July 1, 1920, at which time, approximately, the present 5 per cent. sinking fund purchases will expire.

Credits to Foreign Governments.

The bill grants rather restricted powers to the Secretary of the Treasury to extend additional credits to foreign governments, until the expiration of eighteen months from the end of the war, as fixed by the proclamation of the President. The credits, which must have the approval of the President, may be "for the purpose only of providing for purchases of any property owned directly or indirectly by the United States, not needed by the United States, or for any wheat, the price of which has been or may be guaranteed by the United States."

The total amount of credits which may be granted remains as under the former act, $10,000,000,000, of which approximately $8,500,000,000 has been exhausted. These credits shall bear interest at not less than 5 per cent. and be payable not later than October 15, 1938. The obligations of foreign governments acquired under the provisions of the First Liberty Loan will mature not later than June 15, 1947. These maturity dates correspond with the maturities of the United States bonds issued to raise the funds which were loaned to the foreign governments. It is understood that the temporary obligations which have been received by the United States Treasury for these advances bear interest at 5 per cent., and the bonds will bear the same rate.

For the purpose of giving aid in the exportation of American products in the present state of the exchanges, the bill proposes to enlarge

the powers of the War Finance Corporation, by authorizing it to loan in the aggregate not exceeding $1,000,000,000 to persons, firms, corporations, or associations engaged in such exportation or to banks or trust companies which lend for such purpose. The loans in each case must be limited to the contract price of goods so exported, including insurance and transportation charges to the foreign destination, or in the case of banks to its actual advances for such purpose. These loans may run for not exceeding five years from the date of the advances.

As only a few days remain in which the present Congress may do its work, it is evident that this measure cannot pass except by general consent, and defeat will mean that an extra session of the new Congress must be called.

Credits for Foreign Trade.

The figures for foreign trade in January are very gratifying, but they show the necessity for the United States to exert itself in some way to aid foreign buyers in effecting payments. Exports from this country amounted to $623,000,000 with imports of only $213,000,000, leaving a balance in our favor of $410,000,000. Exports were the highest of any month on record, and the balance was also the largest on record. It will be recognized by anyone who understands the fundamental conditions of trade that balances like this are impossible as a normal and regular thing. A year's trade on that basis would create an aggregate balance of nearly $5,000,000,000. There would be no real advantage to the creditor country in such a one-sided trade as a regular and permanent state of affairs. Trade is for the purpose of getting something that ministers to the welfare and comfort of the producers, either directly by obtaining goods of common consumption or by obtaining something that will be of service to them in production or as a reserve in the future. There is no gain in piling up foreign balances which can never be brought to this country, and the income from which can never be brought here. Moreover it is impossible to pile up such balances because nobody here will buy them. The business men who are eager now to sell their goods in Belgium and France would not be eager to do so if they did not expect to receive pay for them within a reasonably short time, but nothing is more certain than that they cannot be paid unless credits are created in this country against which the French and Belgian buyers may draw.

The trade balance in favor of the United States in the month of January exceeds in value the total production of gold in the world last year outside of this country; so of course such balances will not be paid in gold. How then, will they be paid? It is a pressing question, for while it is both impossible and undesirable to have such trade balances permanently, it is from every standpoint desirable that our exports shall be as large as we can make them until Europe has recovered her normal productive capacity, and industry in this country has recovered its balance.

There are still some American securities in Europe, but the holders who have hung on until now are probably intending to keep them. The general state of society in Europe is not such as to encourage the transfer of investments from this country to that continent. Aside from the sale of those remaining American securities there is no way of creating credits here except by selling European securities in this market, or borrowing direct of individuals or banks. How long will the facilities for making payment last with the trade balance running at $410,000,000 per month, not to speak of the interest payments now running on foreign government loans? There is no provision in the bill for loans to cover accruing interest, and presumably loans will be floated on the public market here for that purpose.

Not a Question of Solvency But of Facilities.

It will be seen that this problem does not involve the solvency of these foreign countries, or of the individuals who would like to make purchases in the United States. No matter what an individual's wealth may be in lands or property located in Europe, how can he make payments in the United States? He can only offer to pay in the future, when it has become possible to transfer some form of wealth to the United States, but this is an offer of promises and securities, and how can these be handled here to maintain this trade? Even the $1,000,000,000 of credit which the pending bill would allow the War Finance Corporation to issue, would cover only two and one-half months of such trade balances as this in January.

It is true that there are some offsets which cannot be closely calculated, such as shipping charges, insurance premiums, personal remittances, and expenditures of American travelers. We are building our own ships to reduce the shipping charges. American travelers will probably crowd the passenger ships to their capacity as soon as restrictions are removed, and will be an important factor in the situation, but with every possible allowance it is difficult to see how the account can be balanced. Our people have been eagerly speculating upon Europe's inclination to buy, but the actually limiting factor is the means of making payment.

Under existing circumstances it seems quite out of place to complain if foreign countries take steps to bring importations from this country under control, as Great Britain has recently done in small degree by an official embargo, directed not at us but at certain specified articles. When the United States Government ceases to make loans to Great Britain, France, Belgium and Italy,

their only means of stabilizing the exchanges will be by loans on this public market, and who knows to what extent the public market will supply their needs? And if we do not know, how can we blame them for having misgivings on the subject. It cannot be regarded strange if they wish to control what they regard as unnecessary purchases in order to save their available credit for the necessaries which they know they must obtain here.

A Credit to Belgium.

The first public flotation for the purpose of creating a foreign credit has been handled by four New York banking institutions, to-wit: The Guaranty Trust Company, J. P. Morgan & Co., National Bank of Commerce and National City Bank of New York, these institutions acting as syndicate managers. The flotation is in the form of acceptances, aggregating in amount $50,000,000, the drafts being drawn by the National Bank of Belgium, acting for a consortium which comprises about seventy of the leading banking institutions of Belgium, on the American banks which participate in the syndicate. The latter banks will accept the drafts which then will be offered on this market. Under the terms of the agreement they must be sold to cost the borrower an interest charge not more than one per cent. in excess of the discount rate of the Federal Reserve Bank of New York upon bankers acceptances. The drafts are drawn for 90 days, with the privilege of three renewals, and the compensation to acceptors is ¼ per cent. upon each acceptance, or 1 per cent. if there are three renewals. The Belgian banks participating give their own obligations to cover the credit, accompanied by securities deposited with the National Bank of Belgium.

The terms of the agreement specify that the credit thus established shall be used only to provide funds in America to purchase American supplies for re-establishing industrial operations in Belgium.

It is expected that Belgium will be to a large extent, if not fully, indemnified by Germany for the destruction of her industrial equipment, and that these funds will be available in some form for the payment of these obligations. A similar credit for £4,000,000, or approximately $20,000,000, has been placed in London.

The $50,000,000 credit illustrates what is necessary to keep our foreign trade moving, but it would take eight of such transactions to cover the January trade balance if there were no other means of payment.

Labor Troubles.

The labor situation in England is more disturbing than the disorder in Germany and Eastern Europe, as the latter is more or less involved in the political reorganization which is going on there, and we are accustomed to think of social and industrial conditions in England as more like such conditions here than in the case of the continental countries. Even the proceedings of the Peace Conference take second place in vital importance to the question whether the labor organizations of Great Britain will paralyze the industries of that country by their extreme demands. Whether the Peace Conference does its work wisely or poorly there is good reason to believe that at least there will be no more war for some years, and if the industries everywhere are quickly revived, so that the people will have earnings wherewith to buy the goods they need, and the supply of goods is forthcoming at normal prices again, the present emergency will be over, and there will be time then to plan for the future. Sensible people realize that the present emergency is a very serious one. Living costs are very high, great distress must result from a general state of unemployment, and the task of demobilizing the armies and of transferring workers from war work to peace work in such manner as to avoid unemployment is very difficult at best. An attempt to introduce a revolutionary industrial program at this time would mean, if supported in force, the reduction of society to a state of complete helplessness. In these modern times all branches of industry are interlocked and the industries of all countries are inter-related to such an extent that revolutionary changes, fixed to take effect by the calendar and the clock, are impossible. Changes must be accomplished gradually, of necessity, or they will dislocate the industrial organization in a thousand places. Industry is halting everywhere now, thousands of workmen are on short time and thousands more have no work, merely because prices are undergoing the natural and inevitable changes incidental to the ending of the war. This makes trouble enough for the moment, but this condition will clear itself in a comparatively short time, provided new and incalculable factors are not introduced. Attempts to revolutionize industry by putting it in charge of government officials, or by impossible additions to the cost of essential services, or by strikes to cut off such necessary supplies as coal and transportation service, are bound of course to greatly complicate present difficulties and delay recovery to the normal conditions under which it is possible to plan intelligently for social advancement.

The British Situation.

The acute situation which has developed in Great Britain seems to be the result of many causes. Trade unionism had been strong there for a long time before the war, and had established many rules which were restrictive upon production. In fairness to the workmen it should be recognized that these restrictions were significant of the prevalent dread of unemployment as well as of antagonisms born of bitter industrial struggles. Men of all classes are governed by what they believe, whether that be true or false, and British workmen have believed in

the past that high-speed production paid the employers but did not pay them, and that it tended to produce unemployment.

When the war broke out and it was necessary not only to recruit great numbers of workmen for the armies but at the same time greatly increase the output of some of the principal industries, these restrictive regulations were a serious obstacle to the efficiency of the individual worker, and the Government sought to have them temporarily waived. By appealing to the patriotism of the men this was accomplished, upon the condition that they should all be restored after the war. It was no time then to argue the economic principle involved; that was left to the future.

The result of removing these restrictions and of introducing labor-saving machinery was to greatly increase production without in the final arrangements increasing the hours of labor, so that the unit cost of production in many instances was actually reduced while the earnings of workmen were largely increased. The results were so gratifying that the heads of great industries and labor leaders were agreed that industry in England should not go back to the old basis but should be kept upon the basis of higher efficiency and that wages and hours of labor should be adjusted accordingly.

After The Armistice.

After the armistice was signed readjustment proceeded in this spirit, at first quite amicably. The "engineering" trades, which are understood there to include ship-builders, boiler-makers and all workers handling machine tools, quickly reached an agreement upon a 47-hour week, a reduction from 54 hours without loss of pay. The railway employes threatened to strike for an eight-hour day, but the Government, which is operating the roads, conceded the demand, which including previous concessions made during the war was estimated to raise the total wage bill from $235,000,000 per year before the war to $635,000,000 per year. Advances were granted in the textile industry and in other trades.

These concessions, however, did not satisfy all factions among the unions. The radical element, which wished for nothing short of revolution, fomented discontent and encouraged rebellion against the union officials who had agreed to these settlements. They exaggerated the profits of employers, and pointed to the enormous expenditures upon the war as evidence that there was no lack of money when the ruling class wanted to raise it, and pointed to the ease with which concessions had been won, as evidence that they had been too easy in their demands in the past.

Then came a new and very influential development, i. e., the return of discharged soldiers looking for their old jobs, at a time when munition orders were being discontinued and new work was not at hand to keep the shops employed. The old fear of unemployment came back, and the marplots were quick to play upon it. They urged that a reduction of hours was necessary to give work to all, but it must be without loss of pay. The demand for a 44-hour week was set up, eight hours for five days and four hours on Saturday, and this was superseded in some quarters by a demand for a 40-hour week, five days of eight hours, and a full holiday on Saturday.

New Union Leaders.

When the time came in January for putting into effect the 47-hour week in the engineering trades and the eight-hour day on railways, disagreements developed, in the former case over the pay of piece-workers and in the latter case over meal-time. The theory that a man could readily do as much work in 47 hours as in 54 hours was repudiated by the piece-workers. By this time the concessions won were an old story, and a good many of the men were giving ear to the trouble-makers. Sporadic strikes, unauthorized by the regular union officials, broke out and spread to other workmen. In Belfast the street cars and lighting companies were suspended. In London a body of employes of the electrical companies gave notice of a strike, which, however, was not authorized by the responsible officials, and the Government met the threat with an order under the "Defense of the Realm" act, giving notice that any person who stopped work or sought to persuade others to stop work in such manner as to suspend services to the public would be punished according to law. This strike did not come off. A strike of the underground tube employes was adjusted and service resumed.

In most of these cases the regular union leaders, who seem as a general thing to have labored hard to obtain concessions but to keep the demands of the unions within reasonable bounds, were ignored or deliberately flouted. New leaders, in most cases young and rebellious against their seniors, pushed themselves into the front and took charge.

The most serious situation has developed by the action of the coal miners' unions, supported by the railway employes. Here the situation was precipitated by the return of discharged soldiers, who were given their old places by the discharge of employes who had been taken on during the war. At one time there was feeling among the miners against the new men, but that seems to have given way to the feeling of labor-solidarity and the plea that all labor must be provided with employment.

The Coal Miners.

The demands of the miners are as follows:

(1) Full wages from State funds for miners released from the Army but not absorbed in the mines, and for men displaced from the mines to make room for ex-soldiers;

(2) The amendment of the Eight Hours Act by the substitution of six working hours for eight; and

(3) A 30 per cent. advance on present earnings, other than war wages, the war wages to be continued.

The unions voted six to one in favor of quitting work on March 15, if these demands were not conceded, and the railway employes have agreed to support them.

The Prime Minister, Mr. Lloyd George, has moved in the House of Commons for the creation of a Committee of Inquiry, which will be appointed and is expected to report by the end of March, and it is believed that the miners will defer action until the report is made.

It is manifest that such a change in the conditions of coal production would add largely to the cost, and thus greatly increase manufacturing costs in England and work to the disadvantage of all its industries in world trade. Those industries furnish employment to the great body of English wage-earners, and whatever effects the industries unfavorably must effect the workers in the same manner. There would be a similar effect upon British shipping and upon the export trade in coal, which the country relies upon largely to pay for its imports of food and raw materials.

Competitive Conditions.

Mr. Lloyd George, in his remarks upon moving the committee, said that the cost of coal at the pit-mouth in England was about seventeen shillings as against eleven shillings in the United States, and that these demands if granted would raise the cost to about twenty-seven shillings, or approximately $6.75 per ton. He said that the profits of coal operators throughout the country for the five years before the war averaged a shilling per ton, and the royalties were a six-pence per ton, so that if profits and royalties were entirely wiped out a very large increase in the price of coal would be required if the demands were to be met.

The industrial leaders of the country regard the situation as one in which the very life of British industry is involved. The burden of supporting an unnecessary number of men on the mine rolls, the higher cost of coal, would react upon British production and British trade, reduce employment everywhere, and increase the cost of every service and article of consumption. And the alternative threatened is a strike which would compel a general suspension of industry throughout the country, or possibly a compromise, which at best would add to the difficulties that attend upon the period of reorganization.

A great convention of representatives of employers and wage-earners was called by the Government and held in London on February 27, at which a commission of thirty representatives of the employers and thirty representatives of the labor organizations, with due representation for the Government, was created to consider the situation. It is thought that this opens the way to a working agreement.

The Seattle Strike.

A deliberately planned attempt to overthrow civil government and establish the Russian Soviet methods in control in this country was made in Seattle, and proved a failure. The mayor of the city, Ole Hanson, a courageous American of Norwegian parentage, declined to abdicate his functions, and although the public services were partially out of commission for a day, public sentiment rallied to his support so heartily that the attempt at social revolution was quickly abandoned.

The original issue was over wages in the shipbuilding plants. They were fixed last summer by a Government board, and it is a well-known fact that wages in shipyards were fixed on a high level for the purpose of drawing labor from all over the country, at a time when the speedy construction of our ocean fleet was thought to be vital to winning the war. The cost of the ships now under construction is known to be far above any value that can be possibly realized by sale, or upon which a normal return can be earned from operations. It is conceded that at least one billion dollars will have to be written off and charged to the war in order to bring the value of the fleet down to figures upon which earnings may be calculated. Now that the war is over common-sense would seem to dictate that these ships should not be made unnecessarily costly, but that labor upon them, being paid by taxation upon the whole community, should have pay corresponding to that received for similar labor in private employment. It should ask no more in this time of heavy burdens, and receive no less. The wage-earners who have good pay and steady work ahead of them throughout this year are fortunately situated, and as a patriotic duty to the country should give their influence for the restoration of normal conditions, in order that there may be work for all.

Impossible Expectations.

The extravagant demands which are being made throughout industry at this most inopportune time are due for the most part to vague assurances which have been freely held out by writers and orators who with little knowledge of business affairs themselves have been moved by generous sentiments to promise that a new heaven and new earth would be realized after the war. They don't know how industry is to be revolutionized, so that the wage-earner will receive a much larger share of the product, but they have been sure that it would be done somehow, because, they say it "must be." But nothing must be, or will be, unless somebody knows how to accomplish it. As a rule the parties who are so sure that things will be very different in the future, know very

little about the problems of the business world, and have never had the responsibility of meeting a pay-roll, managing an industry or marketing the product of a group of workers. They don't know how hard a task it has always been to make a business pay a margin above the costs of operation, and how few, comparatively, succeed in doing it.

The Federal Trade Commission made an inquiry upon this subject several years ago, confined to corporations, and reported that most of the corporations doing business in this country were not making even a fair profit. How are the employers of this class going to radically increase wages and bear the cost out of their own profits?

Varying Conditions.

In every line of industry there are establishments of varying profits, from those most advantageously situated and most capably managed, down to those which scarcely have any profits, and below these to yet others which are wasting their capital and probably will have to close down. The scene is constantly changing, with concerns that have been leaders yielding place to younger and more vigorous rivals. Nobody has a secure and guaranteed place in the business world. Energy, new ideas, enterprise, are always bringing new competitors to the front. Profits are an uncertain, elusive quantity which one man has today and another man tomorrow. Profits are not made by increasing prices but by reducing costs; not by having higher prices than competitors but by being able to sell below them or sell more goods at the same prices.

In lines in which no radical changes in methods have occurred recently, profits are generally small. Large profits are made where there have been new developments in product or processes, which have not been fully introduced, but taking industry as a whole a very large part of it is in the hands of proprietors who are operating on very moderate margins of profit. These people cannot be compelled to absorb large wage increases by reducing their profits, for it is impossible for them to do so, nor can they be suddenly forced out of business in favor of more economically-managed rivals. The latter alternative is indeed a remedy which is always working more or less effectually, but it takes time and our public policies retard rather than favor it.

The business organization and business methods of a country cannot be changed at once; it must be accomplished by a gradual process of adjustment and evolution. An attempt to revolutionize industry by the edict of any authority must result in halting all the processes of production and exchange upon which the whole community depends for its livelihood, with incalculable loss and suffering as the result. Whatever alterations are desired in the machine must be made in such manner that its efficiency in serving the daily wants of the community is never impaired, but day by day improved.

Lessons from the War Period.

It is true that the experiences of industry during the war have yielded lessons which all thoughtful people wish to take into account. Notwithstanding glaring instances of wasteful methods and inefficient service it cannot be questioned that in this country, in England and other countries where industry was under great pressure, the aggregate industrial output was largely increased, despite the withdrawal of men to the military and naval forces. This result was accomplished by the more complete employment of the people, the wholesale introduction of women into industry and business, a greater centralization of industrial management and, lastly, by greater unity of spirit and zest in accomplishment.

Governments in Industry.

While there is much to be learned from this, it would be a great mistake to assume that any proof is afforded in favor of permanent government control or management of industry. Those who have been nearest to government management draw the opposite conclusion. They have seen enough of it. But taking the most favorable view of it, there is no reason for thinking that what was justified temporarily under war conditions, and with the volunteer aid of scores of experienced men of affairs, giving their services gratis, could be done successfully under ordinary conditions and as a permanent policy. No such degree of co-operation could be had from the public except under unusual conditions. A general system of non-competitive industry centered in the government, even if highly efficient for a short time, would soon become inefficient because it would become unprogressive. The resources upon which it could draw for new ideas would be too limited. A few men at the top cannot do the thinking for an entire people. There must be favorable conditions for the incubation of ideas in the body of the people. An efficiency which does not afford such conditions is not a lasting kind of efficiency; it is a stereotyped efficiency. The most important consideration at any time is not the achievement of a mechanical kind of efficiency, which will repeat a given operation with the greatest possible rapidity and certainty, but an efficiency which will find new and better ways of accomplishing desired results. That is wherein private management and the competitive system is superior to government management.

How Progress May be Achieved.

Mr. J. R. Clynes, one of the recognized Labor leaders of England, who left the last Cabinet, in which he held the position of Food

Administrator, because he felt that during the election campaign he must support the Labor Party candidates rather than the Coalition candidates, made a speech before the American Luncheon Club in London recently in which, while deprecating but excusing the radical demands of the Labor organizations he stated his own views of how social progress was to be achieved. The report says:

While he agreed that there were specially arduous trades, where the mental and physical strain was very serious, he agreed that, in the main, there was a tendency amongst trade unionists to make demands, and to press them, which the trades could not very well afford to meet, and which the country, he feared, would not for some time to come be able to bear. He said this because we had lost so much wealth, and got into such a state of dis-repair during the period of the war, that all the energy that we could bring into industry was required for the purpose of enormously increasing the output of our products, and thereby adding immensely to the aggregate wealth of this and other countries. That great increase in production could take place, he was convinced, without any injustice to the masses of workmen, without the application of any tyrannical instrument on the part of employers; it could take place by men making a more successful use of the thing that he could conquer and control—the machine. It could come by better arrangements; by a more successful sub-division of work; by overthrowing those old trade customs and conditions which belonged to the past, and which should be left to the past; by accepting and welcoming the higher and better forms of management that the modern-minded and more capable business men could apply to their interests. In short, it could come by organization and skill.

This is the rational and practical view. The entire industrial organization, including capitalists, managers, workmen, traders, transporters, warehousemen, bankers, brokers, the professional classes, and all who contribute to the efficiency of the productive forces or minister to the comfort of the population, should be regarded as working for the common welfare. Every one who makes a contribution to that purpose has rightfully a place in the organization, and no occupation which does not so contribute can be regarded as legitimate. The problem always is to raise the efficiency of the organization; to eliminate waste, lost motion and superfluous charges; to find the most effective methods of production, and the simplest methods of distribution; to create the highest degree of confidence and harmony between all members of the organization, in order that they may work with the greatest possible zeal and efficiency for the common cause. This is the way of real progress.

A Cooperative Society.

There is no proper understanding of the fact that society is already essentially cooperative. The division of labor into trades and occupations means that the community is organized to supply its wants by an exchange of services. The fact that individuals see their own immediate interests first, and are so intent upon these that they do not see the mutual interests, or see how their own interests are linked up with the interests of others, does not affect the principle of cooperation underlying the whole situation. Cooperation is as intimate and effective as the understanding of individuals permits it to be. It is a practical cooperation, corresponding to the individual will and intelligence, and developing, with the best results for each class attained by the balanced and harmonious progress and development of the entire organization.

Improvements in agriculture and the growth of intelligence and efficiency in agricultural workers, are beneficial to all consumers of agricultural products, and so improvements in transportation methods and in the earnings of transportation workers are beneficial to those engaged in manufacturing; and conversely, whatever impairs the efficiency or the earnings of the workers in any branch of the great industrial organization reacts unfavorably upon all branches. Real gains are not made at the expense of each other, but together with all others. There is a normal balance and relationship in the number of workers in the various occupations, and also in the pay which they receive, which in all cases comes finally from each other, and these relations are best adjusted by freedom in competitive effort and the free movement of individuals between the occupations.

The Principle of Democracy.

The principle of democracy is involved in this freedom of movement from one occupation to another, in the normal adjustment of relative conditions and compensation, and generally in the maintenance of equality and justice between the occupations. It is not consistent with democracy that the workers in one industry, as coal-mining or railroading, in which the conditions may be favorable to a sudden exercise of power, shall secure by arbitrary action advantages for themselves over the workers in all other industries. That is the same unwarranted exercise of power which every privileged class has been charged with in the past. It is not right, it is not democratic, and although it may for a time seem to win advantages to a group, it will not pay even the successful group in the long run, because it violates the principle of free, orderly, uniform, cooperative development which best promotes the common progress.

To suddenly cut off the coal supplies or the transportation service of a country, without submitting the reasons or grievances which prompt such action to an impartial tribunal, is an attack upon society. It can never be admitted as a principle that the group of people in any industry shall have the unrestricted right of fixing their own compensation and compelling the rest of the community to pay it. This is not a question between rich and poor, or between employers and wage-earners, but between groups which include all classes. When the supply of coal is shut off, all classes must go without, and it is a certainty that the rich are a small minority among those

who suffer. When transportation is paralyzed and industries are forced to close the results are more serious to wage-earners than to any others.

Nobody questions that the labor organizations have it in their power to do a vast amount of mischief. The industrial organization has become highly interdependent, as a means of promoting the common good, and this interdependence makes it possible for a comparatively small group to cause a wide disturbance, but the injuries inflicted are borne by the entire community, including the perpetrators.

The Way of Orderly Progress.

If it is said that there are evils in society which ought to be remedied, the answer is that there is nothing remedial or constructive in a threat to paralyze all industry. If anybody knows how all of the evils of society, or any of them, can be remedied, let him preach his remedy until he converts a constitutional majority of the voters to its support, when it will go into operation. He has no right to have it in operation until then.

The great struggle of the past has been to make men equal before the law and in the making of laws. That has been achieved. Ole Hanson and the full city government of Seattle were chosen in a free election in which every man and woman living in that city had the right to vote on an equality. Is there any better way of establishing authority than that? The revolutionaries undertook to depose this government and set up one representing only a limited part of the population. Certainly that is not democracy, and the world will hardly go backward to that principle of government.

The Railroad Orders.

The head of one of the railroad brotherhoods before the Senate Committee considering the railroad problem was asked if in case the railroads were taken over permanently by the Government the employees would expect to exercise the privilege of striking to enforce their demands. He very positively declared that the right to strike—quit in a body—would never be restricted.

He submitted his own proposal for the permanent disposition of the railroads. It was that the Government should buy them, and turn them over to the railroad brotherhoods to run on a fifty-fifty division of the profits, after the brotherhoods had first received their pay.

There seems to be no reason why this arrangement, together with the strike privilege, should not be satisfactory to the brotherhoods, but ought there not to be some stipulation under which other people could take turns at being railroad employees? Or would the privilege of being a railroad employe be hereditary and descend to the oldest son? Just how would this arrangement express democracy to the farmer, or the common brother rustling for a living in the open, outside the "brotherhoods"?

There is no better body of men in the country than the railroad men, but do they really want the "upper hand" in this manner? If the world is to be made safe for democracy all men must give up the idea of coercing others, of being judge, jury and sheriff in causes in which they are themselves a party.

The Problem of Unemployment.

So far as the action of the British coal miners is prompted by a desire to provide temporary employment during the period of industrial adjustment, it is entitled to careful and sympathetic attention. Sufficient attention has not been given in the past either to the suffering directly resulting from periods of unemployment or to the loss of wealth and business by the whole community. It is indeed a large and difficult task to undertake to stabilize industry against all the shifting influences which play upon it, but not only humane considerations, but every-day business considerations call for efforts to be made. There is an enormous loss of productive energy in a period of business depression, and any degree of salvage would help in dealing with the social problem. The living conditions of the people in all countries would be vastly improved if there were better facilities for keeping them employed at all times. It is not enough to say that the energetic will find work, or will lay by savings for dull times. The fact must be recognized that a great many fail to do either, and that society suffers and every-day business suffers in consequence.

Business is interested in increasing the earnings of the people. There is demand upon the industries, trade for the merchants and incomes for all classes in utilizing this idle time. Production and consumption go together. The industries depend for their market upon the buying power of the main body of the people, and whatever contributes to this supports business. The tax-payers who are afraid at this time to have valuable public improvements, like road-building and school-house constructions go ahead, because costs are higher than usual, do not realize the economic truth that it is better to have useful public improvements made even at high cost than to have the labor which enters into them not employed at all. There is a net saving of wealth that would be wholly lost.

Henry Ford says he intends to stop building large factories and scatter small ones among the small towns where he can gather labor from the farms in the dull seasons, shutting down the factories for several months in summer. He thinks the men will come back from several months on the farms with so much new energy that they will make good the output lost in the shutdown. That may be a way of taking up the slack in the rural communities, but the problem of averting the waste of idleness in the cities

is deserving of most earnest attention. The economic possibilities to the entire community promise rich rewards for its solution in addition to the relief afforded to the wage-earners.

No Permanent Over-supply of Labor.

On the other hand the theory of shortening the work-day in order to make employment go around, as a permanent policy, is so utterly fallacious and opposed to the interests of the wage-earners themselves, that it cannot be tolerated. It assumes that there is only a limited amount to be done and no possibility of increasing consumption, which is false upon the face of it, for the wage-earners themselves are insisting that they would like to largely increase their consumption. They would all like larger and better homes, and to increase their expenditures in many ways, all of which would require that more work be done by somebody. Satisfaction for the normal and proper ambitions of the wage-earning class means an enormous increase in production. The only requirement is that it shall be a properly balanced production.

The Part of Capital and Management in Industry.

The idea that we have now a cooperative state of society will be challenged on the ground that the division is unequal. There are people who can only think of cooperation as existing with equality in position, authority and division of results. But if people do not contribute equally to produce results why should they share equally in them? If they were to share equally regardless of their contributions the chief incentive to efficiency and development, and the mainspring of progress would be lost. Cooperation is none the less real or mutually helpful because the division is not share and share alike.

It also seems to have become a popular doctrine that private capital and private profits are undesirable factors in production, and hence that private savings and economies are not worthy of encouragement. Management, skill in organization, ability in the direction of a business, although heretofore regarded as of great importance are considered in some quarters as of little value, because it is assumed that under the socialistic state everything will operate automatically. We noted, however, last month Lenine's suggestion that it would pay the Bolsheviki State to hire a lot of experienced managers at high salaries. We stated that so far as we were advised the suggestion had not been adopted, but under the date February 3, Robert Minor, a correspondent of the New York World whose personal sympathies had always been socialistic, cabled to that paper an account of an interview with Lenine and of present conditions in Russia in which he said:

Lenine could not afford to tell the whole truth about the entrance of non-Bolsheviki into the Government, for he must maintain the intransigent front. *The main fact in the new situation is that the so-called nationalization of Russian industry has put insurgent industry back into the hands of the business class, who disguise their activities by giving orders under the magic title of "People's Commissaries."* That is the only title that commands obedience. * * * *

The interview was in the Kremlin, ancient seat of the Czars. As I came away two smart limousines drew up and deposited several well dressed men of the business type. This class had been lying very low only a few months ago. They are of the type the Bolshevik creed denounces as "bloodthirsty minions of predatory capital."

There is a difference now. The business types ride in fine automobiles as before, live in fine mansions, and are again managing the old industries, with more authority than ever before. Now they are "People's Commissaries"—servants of the proletariat and the iron discipline of the army under red flags has been developed in order to protect them against all annoyance. A rose smells as sweetly to them under any other name.

Inequalities then have not been banished from Russia by the revolution. Apologists say that this is only until the workers have been educated to a knowledge of how to manage industry by themselves. If this means that inequalities of reward will only exist until inequalities of ability and service have disappeared there is no occasion to dispute it. This is only saying that education is relied upon to sometime bring about what the revolution failed to accomplish. The revolution has not changed human nature or the conditions of successful industry.

Exaggeration of Inequalities.

Much of the misunderstanding of industrial conditions is due to the exaggeration of inequalities in incomes. The real differences in the incomes of individuals are not properly shown by the figures. Charlie Chaplin, the moving picture actor, is said to have an income of over $1,000,000 per year. Whatever it may be it is given up to him voluntarily and cheerfully by the public in exchange for what he has to give. It is difficult to see why anybody should find fault with the arrangement. But money is only a means of getting something else, and it would be a great mistake to conclude that the movie star gets 1,000 times as much of the comforts and good things of life as any man whose income is $1,000 per year. The statement in terms of money does not give a correct measurement of actual distribution. Probably only a small part of the movie star's income is spent upon himself, the most of it going into investments, which is not consumption or appropriation to private use. All devoted to investments is returned to the public for its use indefinitely.

Henry Ford's case is the most wonderful example of fortune-making. It illustrates the whole process of accumulation and distribution. No banker, speculator, merchant, mine-owner or other individual in any occupation ever made money so rapidly as Mr. Ford, but what percentage of it has he personally ab-

sorbed in an exclusive sense, by withdrawing it from the common fund of wealth? To what extent has the common supply of food, clothing, house-room, coal, railway service, amusements, recreation, reading matter, educational facilities, medical service, or other desirable goods or services been drawn upon by Mr. Ford for his personal use and pleasure? How much more of these has he had than the average of his employes? To what extent have his wants interfered with the supply available for others?

One view of Mr. Ford's career, looking only at the figures of his personal income, would regard him a leech upon society, but instead of that he has been a great benefactor. What he has withdrawn from the common fund is nothing compared with what he has contributed to it, and that is true of all men who accumulate fortunes in honest business. The ability to organize industry and to contribute new ideas to production is the greatest of wealth-making powers and the greatest agency for the improvement of general conditions.

How much faster would society move forward, and how much better would it be for the average man, if whenever a man with the genius for the direction of industry showed his head above the mass, his surplus earnings should be forthwith taken from him, either by clean sweep or graduated taxation? He demonstrates exceptional ability to use capital for the development of industry; is it better to let him use what he makes by fair methods, and so give play to his faculties, or to hold him down by taking away the tools with which he would work?

Sentiment Favors High-Cost Producers.

We have said that it is impossible to suddenly revolutionize industry so as to greatly increase labor's share in the product, because the bulk of production is now on a small margin of profit to employers. In most instances, if the latter were to forego all profits the amount available for the increase of wages would provide for nothing like a revolution in industry.

There are, however, in many lines, employers who are making larger profits, and there are people who think that these should be the objects of attack. This would not revolutionize industry or help the employes of low-profit firms. Moreover, this presents the same situation described above. The employers who are making profits above the average are the low-cost producers, the leaders of industrial progress. Their profits are higher, not because they pay lower wages, or get higher prices, but because their methods are superior. They are introducing the new processes, they are setting the pace and pattern for the future. They are putting their profits back into the business, enlarging production, drawing to themselves more workmen, probably by offering greater inducements than their more sluggish rivals. In short. this class of employers will be steadily absorbing business from the high cost producers who are making only small profits, and this process will continue until the latter are eliminated from the field. When this is accomplished prices will go lower and profits will be lower, the industry being then completely established on a lower level of costs. This is industrial progress, and one cycle is not completed before another is begun, because other new leaders will be on hand with new ideas in production or service.

It is undoubtedly to the advantage of the public that the low-cost producers shall take over the business, but public policy does not favor them. Rather it is inclined to hold them down, take away a share of their profits by discriminating taxation, and check their spread over the field. Yet it is through the low-cost producers that industrial progress is made, and only through them can the talked-of revolution in industry be accomplished.

It is impossible to get higher wages from employers who are making little or no profit, except as costs are passed on to consumers, and higher wages which are so passed on do not signify an industrial revolution. They are eventually distributed back upon the wage-earners themselves, with the result that they do not get a higher share of the industrial product than they had before.

The Bond Market.

Bond dealings, as a whole, during the month of February have been characterized by a steady contraction of business, with prices ruling firm, showing a slight advance at the close of the month as compared with the January close.

Second grade rails show an average advance of over three points, compared with prices ruling a year ago, and the combined average of general market issues, excepting Liberty Bonds and Municipals, show an advance of over one point as compared with last year.

Active trading in large volume of Liberty Bonds has characterized Stock Exchange transactions, and new corporate issues have been well received, although the market has not been as spontaneous as in previous months. The larger issues were

$25,000,000	Swift & Co. 6% Notes.
25,000,000	So. Railway 6% Notes.
16,000,000	Illinois Central 5½% Bonds.

In addition to the public offerings, $12,000,000 Kennecott Copper Corporation one year 6% Notes, were reported to have been sold privately at 99½ and interest, to yield about 6.52%.

Municipal bonds have been active during the month with prices shading off, and the new offerings have not met with as prompt a response as was evidenced during January.

Upon the maturity of the United Kingdom of Great Britain & Ireland 5½% bonds, February 1st, there remained $28,179,000 twenty-year 5½% bonds due 1937 which were not taken by the former holders, and these were disposed of during the month by a syndicate at 101 and interest, to yield about 5.40%.

The combined average of forty active issues as reported by The Wall Street Journal February 27th was 85.56, which compares with 85.47 for January 27th, 1919, and 84.39 for February 27th, 1918.

The following were the more important offerings during the month:

$12,000,000 Aluminum Company of America 6% Serial Notes due March 1, 1921-23, at prices ranging from par and interest to 99¾ and interest.

3,000,000 American Railways Company 7% Notes due February 1, 1922, at 100 and interest, to yield 7%.

5,500,000 Brooklyn Edison Company, Inc., General Mortgage Series "A" 5% Bonds due January 1, 1949, at 91 and interest, to yield about 5⅝%.

3,000,000 Carolina Power & Light Co.-Yadkin River Power Co.-Palmetto Power & Light Co. First and Joint Mortgage 6% Five Year Bonds due January 1, 1924, at 95¾ and interest, yielding over 7%.

1,500,000 Coal Products Mfg. Co. 7% Serial Debentures due February 1, 1921-1935, at prices to yield 7% to 7¼%.

4,000,000 Commonwealth Edison Company (Chicago) First Mortgage 5% Bonds due June 1, 1943, at 93¼ and interest, to yield about 5½%.

4,500,000 Chicago, Rock Island & Pacific Railway Three Year 6% Coll. Trust Notes due February 1, 1922, at 98¼ net, to yield over 6.50%.

710,000 Elk Horn Coal Corp. Sinking Fund 6% Conv. Notes due December 1, 1925, at 98½ and interest, to yield over 6¼%.

1,350,000 Erie Lighting Co. First Mtge. 5s due April 1, 1967, at 88 and interest, to yield about 5¾%.

7,500,000 Hocking Valley Railway Five Year 6% Secured Notes dues March 1, 1924, at 98¼ and interest, to yield 6.40%.

16,000,000 Illinois Central 5½% Secured Bonds due January 1, 1934, at 97½ and interest, to yield about 5¾%.

3,000,000 Maine Central Railroad First & Refunding 5s due December 1, 1935, at 94½ and interest, to yield 5.50%.

7,300,000 Montreal Tramways & Power Co., Ltd., Five Year 6½% Secured Bonds due March 1, 1924, at 100 and interest, to yield 6½%.

10,000,000 Philadelphia Company Three Year 6% Secured Notes due February 1, 1922, at 96½ and interest, to yield over 7.30%.

1,500,000 Philadelphia Electric Co. (of Philadelphia) First Mortgage Sinking Fund 5% Bonds due October 1, 1966, at 94 and interest, to yield 5.35%.

12,500,000 Public Service Corp. of New Jersey Three Year Secured Convertible 7% Notes due March 1, 1922, at 98½ and interest, to yield over 7.55%.

4,000,000 Riordan Pulp & Paper Co., Ltd., Ten Year 6% General Mortgage Bonds due January 1, 1929, at 96 and interest, to yield about 6.55%.

7,200,000 Reading Co. Equipment Trust 4½% Certificates Series "G" due semi annually, from July 1, 1919, to January, 1927, at prices to yield 5½%.

3,000,000 Sperry Flour First Mortgage 6% Sinking Fund Bonds due February 1, 1934, at 98 and interest, to yield 6.20%.

25,000,000 Southern Railway Three Year 6% Notes due March 1, 1922, at 99¼ and interest, yielding slightly over 6¼%.

25,000,000 Swift & Company 2½ Year 6% Notes due August 15, 1921, at 99½ and interest, to yield over 6.20%.

750,000 Troy Laundry Machinery Co., Ltd., 7% Convertible Notes due January 1, 1920-1926, at prices to yield from 7% to 7½%.

1,000,000 Wisconsin-Minnesota Light & Power Co. One Year 7% Notes, due February 1, 1920, at 99½ and interest, to yield 7.50%.

The following were Municipal offerings:

$1,150,000 Cuyahoga County, Ohio, 5% Bonds due semi-annually April 1, 1921-1945, at prices to yield 4.60%.

2,500,000 Georgia 4.97% Discount Warrants, February 1, 1920.

1,500,000 Maryland 4½% Bonds due February 15, 1922-1934, at prices to yield 4¾%.

1,016,500 Massachusetts 4¼% Bonds due 1919-1932, sold to yield 4.24%.

1,100,000 Newark, New Jersey 4½% Bonds due February 1, 1921-1959, at prices to yield 4.40%.

2,720,000 North Carolina Two Year 4¾% Notes due March 1, 1921, at 100¼ and interest, to yield 4.50%.

1,000,000 Province of Ontario, Canada, 4% Bonds due March 1, 1926, at 90¾ and interest, to yield about 5¾%.

1,000,000 Tennessee One Year 4% Notes due February 20, 1920, sold at 3.97%.

New Revenue Law.

The new revenue act, estimated to produce $6,000,000,000 this year, has gone into effect. We give below a brief comparison with the old law.

The new law levies tax under eleven general divisions or classes of taxation. The new law levies tax at one set of rates for 1918 and at lower rates for 1919 and subsequent years, so far as the tax on income is concerned. The lower rates provided by the new law are practically double the rates in effect in 1917.

TAX ON INCOME

I

For 1917	Revenue Act of 1918	
	For 1918	For 1919 and subsequent years
Income Tax Normal 4%	12%	8%
Surtax 1% to 63%	1% to 65%	Same as in 1918
Rate of surtax stationary after $2,000,000	$1,000,000	" " " "
% of surtax on $1,000,000. 13.75%	58.351%	" " " "
on $2,000,000. 31%	61.6755%	" " " "

II

Excess Profits Tax			Excess Profits Tax and War Profits Tax	Excess Profits Tax
Deduction for this tax	Not under	Not over		
	7% of capital	9% $3,000	8% of capital $3,000 and a minimum War Profits credit of 10% of capital $3,000	8% of capital $3,000
Rate of this tax on income		20% 25% 35% 45% 60%	30% 65%, or 80% of difference between net income and War Profits Credit, when this result is higher than Excess Profits Tax.	20% 40%

Example: Application of these taxes to a capital of $100,000; income $25,000.
Tax under 1917 law
with highest exemption..$3,600—14.4% of inc.
Lowest exemption .....$4,000—16% of inc.
$9,100—36.4% of inc.
$7,800—31.2% of inc.

III. Estate Tax: Same method and principle of taxation as in 1916 and 1917 but increased rates.

IV. Tax on Transportation and other facilities; and on Insurance Tax on Transportation same but other taxes increased.

V. Tax on Beverages: Rates of tax very greatly increased.

VI. Tax on Cigars, Tobacco and Manufactures of: Rates of tax very greatly increased.

VII. Tax on Admissions and Dues: Rates of tax largely increased.

VIII. Excise Taxes: Rates of Tax Increased and scope of tax enlarged.

IX. Special Taxes effective July 1, 1918: Capital Stock Tax—Method of computation changed and rate doubled. Proprietary Taxes—Rates of tax increased and scope of law enlarged.

X. Stamp Taxes: About the same as in 1917.

XI. Tax on employment of child labor: A new tax; 10% of net profits; special rule for calculation of net profits; special return required; return to be filed at same time as income tax returns; tax to be paid within 30 days after notice of assessment.

Much of the regulations under the previous revenue law has been written into the new revenue law.

Effective July 1, 1919, postage on first class mail reverts to the pre-war rate of 2c per ounce or fraction thereof.

Export Associations.

The activity in the formation of Export Associations under the Webb-Pomerene Act indicates a greater interest in export trade than has ever been manifested before. The more important lines of manufactures are already represented by organizations which include leading concerns. Thus the new Consolidated Steel Corporation represents ten of the largest steel companies outside of the United States Steel Corporation, the latter having been long represented in export trade by the United States Steel Products Company. The companies now organized under the above name are the Bethlehem, Lackawanna, Midvale, Lukens, Republic, Sharon, Trumbull, Brier Hill, Youngstown and Whitaker-Glessner. No member is permitted to sell for export except through this organization or by its special agreement in writing. The general policy is that the members shall place ten per cent. of their product at the disposal of the export corporation.

The Textile Alliance Export Association is formed under the joint control of the American Association of Woolen and Worsted Manufacturers, the National Association of Woolen Manufacturers, the National Council of American Cotton Manufacturers, and the Association of Cotton Textile Manufacturers. This Export Association is formed to market the products of members of the four associations who subscribe to its stock, by a selling organization which will include permanent sales-rooms with exhibits of samples of goods in American and foreign cities, traveling sales promoters, campaign of education, etc.

The Copper Export Association is composed of fifteen producing companies. Every producer-member agrees to do all exporting through the Association, the latter fixing export prices, prorating allotment of sales in export according to a schedule of production adjusted yearly, the selling expenses of the Association being assessed in the same way.

The above associations are composed of members naturally competitive, but many of the others are composed of members who produced goods of allied lines, but not competing. Thus the International Paper Export Association has one maker of news print, one of writing paper, etc., making up in all a complete line of paper goods, with no competitors. The result aimed at in these cases is simply to reduce selling costs, and provide for more aggressive cultivation of the foreign field.

Foreign Criticism.

In some quarters abroad the criticism has been uttered that the policy of the Webb-Pomerene law is unethical in permitting combinations which may exploit customers abroad, when such combinations are forbidden at home. This is not a correct view of the purpose of the act. The first active advocates of the law were the copper-producers, who found themselves dealing with European buyers who combined in making purchases, thus avoiding competition among themselves, while the American producers were prevented by the American law from combining in dealing with them. The result of this situation was that foreign manufacturers of copper goods for years bought American copper at an average of about one-half cent per pound cheaper than American manufacturers, which was manifestly unfair to American interests.

Furthermore the Sherman law against combinations was intended for application in this market, where in many lines there was but little competition from outside. These Webb-Pomerene Associations are to operate in other countries where already, presumably, there are many active competitors. These combinations have no position of control or monopoly in foreign markets. On the contrary they are new competitors in fields where others are already well established. These markets which they are entering will have new competition by their coming, and it will be stronger and more effective competition than it would be if American companies were unable to unite for the purpose.

British Foreign Investments.

The annual meetings of British financial corporations, which are usually held in the month of January, have been of unusual interest this year, as it is customary for the presiding official to not only review the affairs of the corporation of which he is the directing head, but to discuss at some length the general financial situation and outlook for the country. The addresses recently made express the great sense of relief experienced in England over the successful termination of the war, and firm confidence in the ability of British industry and British trades to hold their own in the world competition which is to follow, but give frank recognition to the gravity of the labor situation confronting the country. Evidently the speakers rely upon the strong commonsense of the British working-class for an adjustment which will permit the country's industries to be operated.

At the meeting of the Metropolitan Trust Company, a corporation whose investments are mainly abroad, and largely in the United States, the Chairman, Mr. Robert Fleming, who is well-known in this country, discoursed in an interesting manner upon the useful part which England has played in the development of the world's resources, through capital investments in many countries. The subject is always an interesting one, and especially so at this time, for two reasons: First, because of the world-wide socialist propaganda, teaching that capital, capitalists and capitalistic enterprises are altogether superfluous and useless; and second, because, as the speaker prophesies, the United States probably is about to participate on a larger scale than heretofore in such foreign enterprises.

We venture the opinion that the investments which the United States will make abroad will neither reduce the present amount of such British investments nor lessen the opportunities for British investments in the future. The possibilities of increasing production from the resources of nature the world-around are limited only by the possibilities of increasing consumption, and who can look over the populations of the earth today with any anxiety about a general state of overproduction? The whole world is clamoring for better living conditions, and the only way they can be provided is by increasing production through the accumulation and investment of capital. There is not the slightest ground for apprehension that production will outrun the wants of the people in any period that can now be foreseen. It is all a question of judicious and well-balanced development, and in order that development may be so directed it would seem to be desirable that American and British capital should co-operate in a friendly and effective manner.

Nor do we see that the heavy British taxation is likely to seriously curtail British investments, inasmuch as the proceeds of this taxation, for the most part, will be paid out to the holders of British Government securities, and be available in their hands for further use. Where holdings of government securities represent only capital transferred from other securities, the new taxation will indeed be burdensome, but the bulk of outstanding government securities, in England as here, probably represent accumulations since the war began, in which case the income from them may be counted as counterbalancing the new taxation.

Mr. Fleming's remarks are so well worthy of a reading in this country that we give them below:

The Investments: The United States A Creditor Country.

If you look at the report you will see the "Classification according to countries" of your investments. Our largest holding is still in the United States, and of this holding the bulk is lent to our own Government. The United States, owing to the war, has become a creditor country. It has more, much more, owing to it by other countries than it owes to them. For the past 46 years it has been my work to visit the States annually and to invest British money there. The probability now is that that business in its larger aspect has come to an end, and the greater likelihood is that America, if it is to collect the interest on the debt Europe owes to it, must invest money on this side. The rolling years bring wondrous changes. Having helped to build the railways and cultivate the wide spaces of the New World, we may have to turn our faces Eastward and redelve the Garden of Eden. Mesopotamia is a land that Western effort may cause to overflow with wheat and oil, if not with milk and honey. Africa is a continent as large as the United States of America, Mexico, Australia, and Europe put together, or, say, three times the size of the United States, and with only 30,000 miles of railway against their 260,000 miles. Farther East, Asia's teeming millions have scarcely begun to be reached by iron highways.

British Merchant Adventurers: War Taxation.

Our little island has always been in the van of enterprise abroad. Passing through the Royal Exchange the other day I noticed a brilliant fresco, "Philip the Good presenting the Charter to the Merchant Adventurers." More than 400 years have passed since then, but we have shown no falling off in the adventurous spirit. In the century which closed 19 years ago each decade saw new fields explored, new railways, harbours, tramways built, ocean cables laid, gas, water, and light provided, new mineral regions discovered and developed. Even since the opening of the 20th century what enormous amounts of the savings of our people have gone into two industries essentially new, but now important in the highest degree—Eastern rubber and oil; probably not less than £250,000,000! A continuance of this adventure of capital into an extension of the civilizing agencies of the world is essential to our continued prosperity. It is not enough that we sell coal and manufactured goods to buy food and raw materials. It is necessary that our home manufacturers should equip themselves with plant in all respects up to date and strengthen themselves financially for the peaceful struggle that must follow the war, and I am glad that they are doing so, and our own and other trust companies are helping substantially; but we must do more, and continue to export British capital and also the skilled British men who everywhere are placed in charge of British enterprises and help to raise our prestige throughout the world.

It is depressing to think that the taxation which the war will entail must have an evil effect on the continuance of our country as the favoured home of capital and of international enterprise, and no stone should be left unturned to reduce, if it be possible by appropriate legislation, this evil effect. I doubt if manufacturers and the public generally fully understand the importance of this matter. I noticed in the report of Mr. W. S. Barclay, who accompanied the recent Bunsen Mission to South America, this sentence under the section dealing with the Argentine: "Few realize how large a proportion of British imports to Argentina is due to the requirements of British-owned railways and kindred enterprises." The chairman of one of the British Argentine railways told me the other day that his company alone bought annually in peaceful times 350,000 tons of British coal.

The Importance of the Continued Export of Capital.

Without a continuance of the export of capital (and this really means mainly an export of manufactured goods and the employment of our ships) to sustain and extend these enterprises throughout the world, British trade cannot advance as it has done in the past. I do not suggest that we can immediately encourage investments abroad in the absolutely free and unrestricted manner of pre-war days. Then we financed not only our own trade, but that of our competitors. Finance and industry should go hand in hand, and manufacturers should so strengthen themselves, as they are doing, that they can bear their part in these overseas contracts. I am glad to see combinations among manufacturers, resulting in the ability to supply complete installations of electric enterprises. If this were followed up by the formation of a company to take the securities resulting from such new projects—just as the General Electric Company of America (which has a capital of over £20,000,000) formed the Electric Bond and Share Company, having a capital of over £3,000,000—a further advance would be made in the direction of practical results. The British Trade Corporation will doubtless fill a useful *rôle* in this direction, but it cannot be expected to be wet nurse for all the babies manufacturers will produce.

If we fail to continue expanding our overseas industrial possessions, America will take our place and industry at home will languish.

1812

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, APRIL, 1919.

European Conditions.

THE situation in Eastern Europe is more chaotic and unpromising than ever. The provisional government of Hungary had cherished the hope that that country would escape the fate of territorial dismemberment decreed for Austria, and the prospective loss of territory and population to the new national units planned on all sides of Hungary has been a bitter disappointment. Acting either in desperation or resentment, the government, headed by Count Karolyi, relinquished its authority to the Bolshevist element, which was the only party organized to assume the governmental functions. The attitude taken seems to be that of hostility to the Allied powers and cooperation with the Bolshevist government of Russia and the Ukraine. In short it is a forward move in the policy of the latter to spread over Europe. The Ukraine for the most part apparently has succumbed, and the development in Hungary places Rumania in a critical situation and brings greater pressure upon Poland.

The situation is increasingly threatening because all elements opposed to the developing policies of the Peace Conference show an inclination to join the Bolshevist regime, probably in the hope that a general state of disorder will defeat the plans of the Conference, which is the dominant motive at this time. This is the attitude of German Austria, which is all there is left of Austria and which wishes to be joined to Germany.

In Germany the government has put down the extreme revolutionary element with a strong hand, but industrial and social conditions are in a desperate state. Great numbers of people are without employment or food, the country is destitute of supplies or raw materials, the people are despairing or resentful, the expenditures of the government are heavy and sources of income paralyzed. Steps are being taken to collect foreign securities owned in the country for sale or pledge abroad for the purpose of buying food and materials for the industries. Although armed resistance to the terms of peace is impossible, there is no little talk that the German government may decline to accept the terms of peace if they are considered so severe that the economic life of the country will be unable to function.

The crying need of all Europe is for food and employment for the people. Revolution and disorder naturally result where masses are idle, hungry and hopeless.

The Peace Conference.

The proceedings of the Peace Conference are slow, but that is inevitable where so many parties have a voice and the interests are so important and varied. It is entirely natural that there should be differences of opinion about the policy to be pursued. The representatives of France feel the pressing necessity not only for ample reparation for the devastated districts and the injury done to their industries, but some relief from the burden of debt and some protection against Germany in the future. If German Austria is added to Germany they see their traditional enemy as strong as ever, and perhaps dominant in Russia, formerly their ally. They cannot but ask whether both Great Britain and the United States will always be at the side of France in time of need. What circumstances would bring the armies of the United States across the ocean again? Will not Germany carefully avoid provoking that visitation the next time? In short France naturally feels that when the Peace Conference is over she will be left almost alone on the continent facing a revengeful and powerful enemy.

And yet what is to be done with the German people, even giving these apprehensions full weight? They are there, about 70,000,000 of them, in the heart of Europe and they can be neither exterminated nor removed. They cannot be even divided, unless the division is of their own making, for if they are united in spirit the artificial lines which outsiders may draw between them will be of small consequence. After all the natural fears are allowed for, can any better provision for the future be made now than a peace which respects national ideals and racial affinities and which imposes no heavy burdens upon future generations; in short whose terms do not in themselves perpetuate animosities?

The whole European situation is so interrelated, and so dependent upon the intangible elements, that there is danger that the mere agreement, or assent, to a treaty of peace representing many compromises will settle nothing conclusively. Time is necessary to bring quiet and order to Europe, and there will have to be a strong hand of authority over the situation in the meantime. Europe trembles upon the verge of anarchy, of a general dissolution of society. Unquestionably the presence of the United States in the councils there is a great stabilizing influence. It would be a calamity to Europe and to the world, an abandonment of all that we have accomplished, for this country to withdraw from these councils as soon as the treaty is signed. It cannot be seriously contemplated, and from this fact springs the argument for a League of Nations. There is room for much difference of opinion over the terms of any such agreement, and we shall not enter that discussion; the more important points in controversy seem to be in the way of settlement; but the main consideration is beyond debate. The United States is already involved in a situation from which it cannot honorably or with a proper regard for its own vital interests withdraw.

Business Conditions.

The general business situation is more hopeful than it has been since the armistice was signed. The winter season has been passed without the amount of unemployment at one time feared, and outdoors work now opening up will take care of an army of men. The farms are short of labor all over the country and building operations, although held in check by high costs, are showing more activity than for the year past.

The meeting of steel producers held in Washington at the invitation of Secretary Redfield resulted in an agreement for a further reduction of prices, the aggregate since the armistice being now from $12 to $15 per ton. The producers are emphatic in saying that this is all the industry can stand without a reduction of wages, which it is desired to avoid until living costs are lower. The total wage increases in the steel industry upon finished material, from the beginning of the war to its close, are calculated at 134 per cent. and of the total cost of the product 85 per cent. is calculated to be wages.

Reports from the country uniformly tell of good trade. In the dry goods trade it is said that goods bought at the top prices of last year have been worked off by both jobbers and retailers, and that the situation is in good shape. The cotton goods market has been stabilized by buying to keep up stocks, and although buyers are not laying in large stocks confidence is restored for the present. Prices have recovered a little from the low points touched in January. The mills have booked considerable business, and at some of the centers have lengthened their running schedules. The situation in woolen goods is about the same as in cotton. The price reductions made by the leading producers appear to satisfy the trade, which is taking them freely for next fall's retail distribution. It is generally recognized that prices are as low as they can be without wage reductions, and these are not expected during the present season.

Labor and Living Costs.

The general trade and labor situation justifies the views heretofore in these columns, that there will be no headlong decline back to the wage and price levels of before the war, but that the readjustment will take place gradually, following upon lower prices for foodstuffs. We cannot tell when foodstuffs will fall, but it is now evident that the facts did not justify the predictions which were common in January that their prices would come down rapidly if government restrictions were withdrawn. They were withdrawn from hogs and the price went up $2.00 per hundred weight, with a similar rise in the price of corn. May corn has sold at Chicago during the past week above $1.50 per bushel, the highest prices of the year. The movement of provisions to Europe has been very heavy, but not nearly heavy enough to meet the European demand. Thirty German ships are on the way over here for food, and they can take only a small installment of what is wanted. All Europe is desperately in need of food.

It is not so certain that any great reduction in food prices will come even with the next harvest. America's crop of wheat promises to be the largest on record, but there is great uncertainty about production in Europe, particularly Russia, and America is the dependence.

The labor situation will be affected by an exodus of men to Europe as soon as passage can be had. The steamship offices are swamped with applications for tickets and for agencies for the sale of tickets. The latter invariably tell of thousands of foreign-born residents who are wanting to return to their former homes to look after relatives or property interests in the countries that have suffered by the war.

The Cotton Crop.

The movement to restrict the acreage planted to cotton this spring is being aggressively pushed, and its advocates claim it will have an important degree of success. The sudden change of front on the part of representatives of the cotton-growers is remarkable. Up to the signing of the armistice they were confident that there would be a great demand for cotton after the war, and their reasoning appeared to be good. Although the war is over the blockade upon Central Europe has not been raised, the cotton factories of Belgium and France have not yet been put in condition for operations, and the trade of the world is not yet moving normally. In short, none of the conditions necessary to give free play to

the world's demand for cotton have as yet been realized. It seems too early to say that all the expectations of world shortage were mistaken. The available stock of cotton is not above the average of normal years in the past, and with trade reestablished over the world it should be worked off rapidly. That the world's supply of cotton goods is low and its needs greater than ever before is something beyond controversy, and even though trade conditions at the moment are bad it seems a very doubtful policy to arbitrarily reduce the production of a primary necessity.

On the other hand the proposal for the South to stop devoting its agriculture wholly to cotton is unquestionably sound. The South at least should grow enough of the feed and food crops to supply its own wants. It is profligate management for a southern farmer to buy these supplies from the north, paying freight and middlemen's charges when his own soil will grow them as cheaply as they can be produced elsewhere. The South will be well-advised to adopt a well-balanced policy of production and rotation and adhere to it, but there is danger in attempts to regulate the world's markets.

Trade Conferences.

The cooperative movement developed in industry during the war under the guidance and authority of the government is not going to be without permanent effects. Although the government in most lines has quit the exercise of price-fixing authority it is endeavoring in many fields to bring about a closer cooperation between competing interests, even to the point of agreement upon prices which, while nominally maximum figures, are tacitly understood to form the actual price-level. The meeting of the iron and steel producers is the most notable instance. This meeting held under the auspices of the Department of Commerce was practically a repetition of one of the famous Gary dinners, which figured conspicuously in the government's suit for the dissolution of the United States Steel Corporation. Those dinners were held at a critical time in the industry, when changes in the price-level were under consideration and were held with the purpose of getting a concensus of opinion and securing a common policy. Whether such meetings are inimical to the public interest or not depends upon the policy that is adopted. The success of the policy also depends upon whether it is reasonable and closely adapted to business conditions. Secretary Redfield urged this conference upon the ground that it would promote a revival of industry to have a prompt and liberal reduction of prices agreed upon, and that if a fair basis could be reached, likely to be permanent for some time, the government would come into the market as a buyer for various uses.

Similar negotiations are under way in the coal, lumber, building material and other trades, and the development is an exceedingly interesting one.

Low and High Cost Producers.

In every such situation the high-cost producers are likely to be a more important factor than they ought to be, but the public is always tender toward them because they are the small producers and making small profits. The public, therefore, regards them as entitled to particular consideration, although, in fact, the public interest requires that they be eliminated from the industry as soon as possible. They hold up prices, not alone on their own product, but on the entire product. If they were shut up, and competition was confined to the larger and more efficient producers the level of prices would be lower. The big producers would subject themselves to adverse public sentiment and to prosecution if they undersold and closed out their small competitors. The United States Steel Corporation has deliberately aimed to restrict its production to less than one-half of the total production of the country.

The United States Tariff Commission has issued in the last month a report on Costs of Production in the Sugar Industry, which presents a detailed study both in pre-war and war times of the cost of production of cane sugar in Cuba, Hawaii, Louisiana and Porto Rico, and of beet sugar in this country. An official summary of the report says:

> It is shown that in all of these regions the costs per ton of sugar vary greatly among individual producers and that therefore, as the price at which the sugar is sold is approximately uniform, some of the producers reap large profits while others barely make expenses or even manufacture at a loss. Omitting from discussion such obvious causes of these variations in cost as the difference in ability of managers and the vicissitudes of the seasons, two prominent and permanent causes are emphasized. First, sugar is essentially an agricultural product for which there is a strong and increasing demand and to meet this demand land of inferior productiveness must be cultivated. Second, there is shown to be a distinct and permanent economy in large-scale production. Admitting individual exceptions the big concerns are the low cost concerns and the small concerns are the high cost concerns.

This statement of fact by an official investigating body reads almost like an extract from the discussion of profits in the March Bulletin, to which we venture to refer the reader. It all has direct bearing upon the problem of how to revolutionize industry so that higher wages may be paid without having the cost follow the product directly to the consumer. The discussion has already gone far enough to show that the laboring man gains nothing by receiving higher wages at the front door if he must pay them all out at the back door for no more goods or comforts than he had before. There is nothing to the laboring classes in the victories of one union after another which impose higher living costs upon

the members of all unions. The only real gain is in the achievements which enable each class of workers to improve its condition without cost to the other workers, and this is accomplished by improving the means of production.

It is accomplished, not by discriminating against the efficient producers, restraining them and putting burdens upon them, but by encouraging them to put their profits back into the industry until the entire supply is afforded upon the low cost-level. There is always a chance for wage-earners to get more pay from an employer who is making profits, but none if the employer is making nothing. In fact the whole history of industry shows that large profits are only made where there are important differences in costs among the producers, and that the industries which pay high wages are those of high productive efficiency. In this connection we invite attention to the remarks of Mr. Robert Benson, a British banker, given elsewhere under the heading "British Investments."

Packers and Stock-Growers.

Another notable effort at getting together by interests that have been more or less at swords' points is that inaugurated by a meeting of the leading packers and live-stock interests. The substance of their agreement is that they will establish a Control Committee for the purpose of maintaining a better understanding and of adopting economical methods of production and of marketing from the live-stock grower to the consumer.

It is proposed that the Control Committee shall be composed of one representative from the Bureau of Markets of the Department of Agriculture, two from the National Live-Stock Exchange, and ten each from the packing companies and the live-stock growers' associations. All parties agree to co-operate by supplying information bearing upon the industry, the packers agreeing to open their books to a committee of public accountants employed by the Control Committee, and to give consideration to recommendations looking to improvements and economies in their operations. This looks like a practical move to take the packing business out of politics.

Banking Conditions.

Banking conditions have changed but little during the past month, but instead of further liquidation there has been an increase of loans. Total earning assets of the Federal reserve banks increased from $2,263,596,000 on February 21 to $2,343,425,000 on March 21, while total loans and investments of reporting member banks increased from $13,967,067,000 to $14,416,750,000. Payments amounting to over $1,000,000,000 as first installment of income and excess-profits taxes were responsible for this increase. Interest rates are practically unchanged.

Outstanding treasury certificates in anticipation of the Fifth Loan now aggregate nearly $5,000,000,000, in addition to which there remain outstanding certificates receivable for taxes in June to the amount of $685,000,000. Treasury disbursements are lower, but still large. The total for February, including loans to foreign governments, was $1,189,913,903, and for the first 24 days of March $1,060,941,736.

No further details of the Victory Loan offering have been given out, except that the terms of payment will be easier than upon previous loans. The Secretary of the Treasury has stated that this will be the last popular loan campaign. It is apparent that a vigorous effort must be made to overcome the natural decline in public interest and to accomplish a broad distribution. The advantages of tax exemption will be attractive to large taxpayers, but this class cannot take the loan. The general public must be rallied to respond once more and pay the cost of the job which the returning soldiers have done so well. The job is not completed and off our hands until it is paid for.

Foreign Trade and the Exchanges.

The foreign trade of the United States in the month of February last yielded another large balance in favor of this country, exports amounting to $588,000,000 against imports of $235,000,000 with a balance of $353,000,000. It is important to remember in connection with these figures from month to month that they represent trade only; interest and other credits and debits are not included. We have commented repeatedly upon this trade situation and the interest charges which are accruing in favor of this country, and endeavored to impress our readers with the warning that the conditions affecting our foreign trade were highly abnormal and artificial, and could not continue indefinitely. With payments running so heavily one way exchange rates were sustained only by governmental borrowing, which probably would have to come to an end when the peace treaty was signed if not before. Within the last ten days the governments of Great Britain, France and Italy have discontinued the policy of stabilizing rates for private payments, with the result that they have become demoralized to a grave extent. The pound sterling has declined to about $4.58 to $4.60. The French franc, which at par is worth 19.3 cents or about 5.18 to the dollar, is now 6 to the dollar. The Italian lire, nominally of the same value as the franc, is quoted at about 7.75 to the dollar, with but little doing. The Swiss franc, which has been at a premium, still holds that position, but is down to 5 to the dollar. The Spanish peseta, nominally worth 19.3 cents, but which has been as high as 28, the very sore spot in our exchange, is quoted at 20.2 cents. Copenhagen and Christiana are slightly below par and

Stockholm slightly above; Amsterdam practically at par. Japanese exchange, which has been at a premium of six to eight per cent., is down almost to par, and Buenos Aires has made a similar decline. The trend everywhere is in favor of the dollar. The fact that the dollar is no longer tied to the pound sterling helps the position of the former in the markets where it has been depressed. With the exchanges free everywhere all restrictions upon exports of gold from the United States might be removed, but it is too early to say that governmental interference is at an end.

The A, B, C of the Exchanges.

Foreign exchange is usually a puzzle to laymen, but while requiring an expert to understand all its ramifications the principles are simple enough for anybody. If the United States exports $300,000,000 worth of products to Canada and imports $300,000,000 worth from Canada, it is evident that these transactions balance and offset each other. The drafts which are drawn both ways will meet in the banks and clearing houses and cancel each other. Commodities, however, are not responsible for all of the payments made between the two countries; many of them are due to the movements of securities. The Canadian provinces and municipalities often borrow in this country, and private parties do the same. In such cases there is first a payment of principal from the United States to Canada and thereafter regular payments of interest from Canada to the United States, and finally re-payment of the principal. Then, again, Canadian investors frequently buy securities in the United States, from which proceed a flow of payments opposite to those caused by American investments in Canada. So long as the totals of the payments on all accounts each way are about equal it is evident that they practically settle themselves. No financing is necessary, and exchange rates represent only a small charge for the banking service.

Arbitrage Transactions.

When there is a balance either way the bankers of the debtor country may ship gold to settle the difference, or they may settle by means of exchange on another country. If, for instance, Canada should owe the United States but have a favorable balance with England, and if the United States should owe England, it would be advantageous all around for Canada to pay the United States by giving drafts on London. She would be collecting her credits and settling her debits at one stroke. This would be a three-cornered transaction, and more shifts than that are frequently made to avoid shipping gold. These roundabout settlements are known as "arbitrage" transactions, and in normal times are serviceable as tending to stabilize all the exchanges and hold them upon a common level.

It is to the advantage of the international bankers to accomplish settlements if possible without gold shipments, and to this end they usually establish foreign credits by borrowing when there is reason to believe that the balances will soon turn the other way. Foreign trade, however, runs into such large figures that if it is seriously unbalanced bankers cannot long stand in the breach without taking steps to restore the equilibrium. This is naturally accomplished by the fluctuations in exchange charges, as we shall see.

Our Exchanges Since 1914.

When the war broke out in 1914 the first effect was to lower the value of the dollar compared with the pound sterling and other foreign units. There was a rush on the part of European holders of American securities to sell them in this market, thus creating debits against this country, and at the same time the usual fall movement of our cotton and other products was checked by the fear of German raiders. American credits in London were exhausted, and sterling exchange went to a premium, as high as $7.00 being paid for the pound sterling, which compares with a par of $4.8665. The rate, however, soon declined to $5.00, which was still very high.

In about six months, when Great Britain began to buy war supplies heavily in this country, the balance on the account shifted over to our favor, and with the pound sterling at a discount there was an extra inducement for British holders of American securities to sell them in this market. They received, in addition to the New York price, the premium which New York exchange was commanding in London. Thus an Englishman who sold securities in New York was able to sell the credit to some other Englishman, who had a payment to make in New York, at a premium of 2 or 3 per cent.

With the balance of payments running heavily in favor of the United States, the rate at which pound sterling credits could be converted into dollars declined until it touched $4.48, and there were predictions that it would go to $4.25 and possibly $4.00. The British Government, however, checked the decline and restored the rate to about $4.76½, where it remained pegged until ten days ago. This was accomplished by sales of American securities which were taken over from British holders, by governmental borrowings in the United States and by shipping gold to this country. The gold consisted of current production in British territory, reserves held in England and $200,000,000 advanced in equal amounts by France and Russia.

Since April, 1917.

In this manner the exchange situation was supported until the United States entered the war. It is needless now to disguise the fact

that the Allies had about reached the end of their power to sustain the rate when the United States entered the war in April, 1917. If the credit of the United States Government had not become available the situation as regards purchases in this country would have been very serious. No doubt the obligations of the allied governments could have been sold here on the public market in considerable amounts, but not in sums which would have approached the loans that have been made by the United States Government, and unless purchases had been restricted closely to the amount of the credits, exchange rates would have broken badly. In the case of Italy, although the loans made to that government protected the official purchases from high exchange rates, private importations from this country were subject for a time to exchange charges of about 80 per cent. This means that the Italian purchaser after buying a bill of goods here at war prices, and paying transportation charges possibly equal to the cost of the goods, was obliged to pay another sum nearly equal to the original cost for the means of making payment.

Lasting Effects of the War Upon the Exchange Situation.

Although it involves a repetition of statements frequently made of late in this publication, a review of the exchange situation would be incomplete without reference to the fundamental change which results from this country having come into the position of a creditor nation. Before the war we had an average trade balance in our favor of about $500,000,000 per year, nearly all, if not quite all, of which was offset by the interest and dividends which we had to pay out upon foreign holdings of stocks, bonds and other property holdings in the United States, for freights upon our importations, insurance, tourists' expenditures, remittances to friends, etc. On the whole the account about balanced, although running in our favor in the fall and winter, when cotton and wheat were going out, and against us in the spring and summer months. Gold importations and exportations alternated, and in that connection it must be considered that the United States is one of the principal gold-producing countries.

Now the foregoing situation is changed, we assume permanently, by our having bought back the greater part of the American securities and other American property interests held abroad, so that dividends and interest payments to foreign holders will be largely curtailed. British sales have been very large, and French holders have had an even greater pecuniary inducement to sell, as New York exchange has been at a greater premium in Paris than in London. German holdings were largely reduced by sales at the outbreak of the war and before the United States entered it, and are now being eliminated by the Alien Property Custodian, who is selling them at auction. He has reported having had a total of about $800,000,000 of German property to dispose of. Furthermore, the United States has made loans aggregating nearly $9,000,000,000 to foreign governments, and is continuing to make them. These draw five per cent. interest. Including foreign loans made on the public market and privately it is evident that the interest charges running to this country when the peace treaty is signed will aggregate over $500,000,000 per year. Possibly the capital earnings account both ways will net nearly that much to this country.

The effect of this change in the volume of regular payments running from and to us must be that not so much of our merchandise or commodity exports will apply upon financial settlements as in the past. The net difference probably will be from $600,000,000 to $800,000,000. That is to say, allowing that we continue to have a trade balance about the same as before the war, to-wit, $500,000,000, instead of its being absorbed by counter-charges, the entire amount and more will have to be paid to us in some manner. Our foreign customers, instead of merely giving us credit on account, will have to convey property of some kind to us, either by shipment to this country or title conveyance, or settle by means of promises.

The total production of gold in the world outside of the United States in 1918 was not much above $300,000,000, and under the present high costs of production the gold yield is likely to decline. Moreover, additions to our gold stocks which involve reductions elsewhere would tend to raise prices in this country above prices elsewhere, which would be unfavorable to the export trade.

The result of the situation as described will be a greater demand in other countries for exchange on the United States than in the United States for exchange on other countries, which means that exchange on the United States will be at a premium in other countries. There will not be enough to supply the demand, and buyers wanting to pay for goods and borrowers wanting to pay interest will compete for it.

"Favorable" and "Unfavorable" Exchanges.

We are accustomed to say that the exchanges are in our favor when our exports exceed our imports, and so they are in the sense that the balance is coming to us, but they are not favorable to increasing our exports. On the contrary, as soon as the balance running to a country reaches the point where exchange on that country goes to a premium, influences come into play to check its exports and stimulate its imports. In other words the laws of trade tend normally to correct a state of unbalanced trade and to maintain an equilibrium. It is said in teaching physics that nature ab-

hors a vacuum, which is one way of describing the tendency to maintain an equilibrium which runs through all natural law.

When the balances running to a country reach the point where exchange goes to a premium, purchases in that country become more costly to the extent of the premium. New York exchange is now commanding a premium of about 2½ per cent. in Canada, about 6 per cent. in England, 16 per cent. in France, 50 per cent. in Italy. Buyers of American goods in these countries must pay the American price, plus the exchange premium, plus transportation charges. As the exchange charges rise the effect is to discourage the purchase of American goods.

On the other hand the decline in value of a foreign currency in terms of the dollar will make goods priced in that currency cheaper to American buyers, and thus tend to encourage importations into this country. Thus with French exchange at a discount of 16 per cent. as compared with the dollar, an American buyer converting dollars into francs finds that the purchasing power of his money is increased 16 per cent. Or, putting it the other way, a French exporter selling goods in the United States and receiving pay in a New York bank credit, can sell that credit in Paris to some fellow-countryman at a premium of 16 per cent. If he is eager to increase his sales in the United States he can reduce his prices 16 per cent., and be made whole by the premium on exchange.

It will be seen, therefore, that when trade becomes unbalanced as ours is today, natural law tends to reduce the exports and increase the imports of the creditor country until the situation comes back into balance.

Compensating Influences.

There has been some controversy during the last year over the question whether the increased cost of imports resulting from a country's currency being below par in the exchanges was compensated in any degree by gains upon exports. Evidently this depends on whether its exports are sold at home or abroad. If, for example, at this time an Italian exporter consigns lemons to New York to be sold here for his account and receives a New York credit in payment, he will get the benefit of the premium on New York exchange; but, if on the other hand a New York dealer buys lemons in Italy, converting dollars into lire for that purpose he will get the benefit of the premium. In short, the gain is gathered in by the party who makes the conversion of dollars into lire. However, when such gains are to be made there is usually competition for them, the trade is likely to be stimulated and prices will be more or less adjusted to the conditions.

We have already seen that the premium upon New York exchange offers an inducement to foreign holders of American securities to sell them in this market, and obviously the same inducement is open to sellers of every kind of property which can be transported to this market and which has a demand here.

We have also referred to the fact that to the extent that gold is sent here in settlement of the balances, it will tend to raise prices and thus make this a favorable market to sell in, and an unfavorable market to sell from. This is another way in which the natural laws of trade exert their influence to correct an unbalanced situation and restore the normal equilibrium.

What Does Foreign "Trade" Mean?

Our merchants and producers are eager for foreign "trade," by which they usually mean that they want to sell goods abroad. In the early days of our commerce our clipper ships took out cargoes of our products and literally and directly traded them for the products of other countries, bringing home the goods thus obtained. With the development of banking facilities, arbitrage transactions, clearing methods, and the use of bills of exchange, we are apt to lose sight of the "trade" elements in the situation. Individually the exporter gets his pay in the form of a bill of exchange or draft which is cash to him, and he may overlook the fact that an exchange of products was the basis of the transaction.

We are eager to sell goods abroad, but this is upon the assumption that we will get something for them. As individuals we want cash, but a nation's sales are never made for cash, and cannot be. Cash in international trade means gold.

Gold Reserves Strictly Guarded.

This country's exports to Canada in the year 1918 aggregated about $850,000,000, and the total gold holdings of Canada are probably about $200,000,000. Our merchandise imports from Canada were about $400,000,000, so that over and above these there was a balance coming to the United States of approximately $450,000,000. All the gold there was in Canada would not have paid one-half of it. Moreover, Canada could not run the risk of having its gold reserves all drawn away, or seriously impaired, so the Government placed an embargo on exports of gold, and to hold down the trade balance also put an embargo upon importations classed as luxuries.

This, however, is no more than the United States has been doing. Before we entered the war we gained immensely by the gold movements, but after our entrance, and by reason of our loans to support the allied exchanges, the exchanges with some countries, notably Spain, Japan and South America turned against us, and gold would have been taken in considerable amounts had the Government not placed an embargo upon exports. We would not consent to have our gold reserves drawn away at

the will of others or by the currents of trade. Private trade was inconvenienced, but was obliged to submit and adjust itself. Our Government has also exercised strict control over exports and imports of merchandise.

In the same manner the governments of Great Britain and France have exercised control over the movements of gold and merchandise, and are likely to do so as long as there is danger that adverse trade balances may be a menace to their gold reserves. Whatever the inconvenience may be to trade, traders at home and abroad will have to put up with them, because it is considered of greater importance that trade shall be under control and direction, and that the gold reserves shall be conserved for the support of industry and the other vital uses, than that everybody shall have the privilege of trading as he pleases. And we cannot complain of this policy because we have followed it ourselves, and every country follows it when necessary.

Export and Import Trade Must Grow Together.

If the above statements are correct we must reach the conclusion that it is impossible for this country to go on indefinitely increasing its exports without increasing its imports. Gold settlements are out of question, and the only remaining alternative is to take securities. As a temporary expedient this is to be commended and we urge it strongly. It cannot be too often repeated or too urgently stated that our hope for foreign trade this year and in the immediate future is dependent upon our taking pay in foreign securities or promises. Our would-be customers have nothing else to give. They cannot spare gold, they cannot even send goods until they can first import raw materials, and they are still dependent upon us for quantities of food-stuffs.

But how fast will our people be ready to take foreign securities? They have not been accustomed to make investments out of the country; in fact the percentage of our people accustomed to make investments outside of their home neighborhoods is very small. Land and improvements upon it, together with local corporations, have supplied most of our investments heretofore. Moreover, American securities of all kinds are very cheap at this time. Our own government bonds, municipal bonds, railway and industrial bonds and standard stocks, are selling at low prices. American investors cannot be blamed if they prefer their home investments to outside ones upon the same basis, and the whole American list will have to rise to higher levels before foreign investments can be placed here at rates which Europe is disposed to regard as reasonable.

In this disorganized state of affairs the premiums upon New York exchange in foreign markets may be expected to rise until they either reduce exports from this country or promote the making of loans here. A high premium on New York funds will enable a foreign borrower to pay a high interest rate to obtain funds here. It holds out an inducement to borrow here, just as a foreign owner of American securities has an inducement to sell them to create credits in this market. As exchange on New York rises there is an increasing inducement to the whole world to borrow here or sell anything that can be transported to America, be it securities, manufactures, works of art or what not. The inducement will increase until between the barrier to our exports and the stimulus to loans and imports an equilibrium is found.

Is the Change to a Creditor Position a Benefit or Calamity?

This may seem like a startling question, but some of our readers are evidently so perplexed over the new situation that they do not know how to interpret it. One of them, the head of an important business, writes us to say that there must be some way of stabilizing the exchanges so that this country can go on with its exports and without increasing its imports; otherwise, he says, this change to a creditor position, instead of being an advantage, will be a calamity to the country. Apparently he has been reading arguments which convey the idea that the bankers are to blame for high exchange rates, or that the Government should support the exchanges.

It must be understood that we are discussing a permanent situation, not a temporary one. A temporary state of unbalanced trade can be handled by means of bankers' credits; that is to say, the bankers may borrow abroad and turn the proceeds over to their patrons who have bills to pay there, but unless the trade balance turns around how will the bankers' debt ever be paid? Bankers cannot go on incurring debts without any prospect of paying them. Even governments cannot do that. Moreover, whether bankers or governments can create credits in other countries by means of loans obviously depends upon the creditor countries. Thus at the present time the ability of bankers in Great Britain, France, Belgium, Italy and Germany to stabilize their currencies in relation to the dollar is dependent upon America's ability and readiness to grant credits.

The gist of the whole problem is in the fact that international debts must be paid in gold or other transportable property. We have here a case of such magnitude that gold is out of the question, and we have nothing to consider but imports of goods or securities.

Unless the creditor country is willing to receive its pay either in goods or securities it plainly has no use for the trade. Its decision means that it would rather keep its own products than export them on those terms. Exchange goes to a prohibitory premium and exports decline until the balances are no larger

than can be settled. It is idle to protest against exchange rates which merely express trade conditions. They perform a necessary function. When an individual or country cannot pay for purchases in a manner acceptable to the seller the time has come to cease buying.

Is it a calamity to a country that it is no longer obliged to export several hundred millions' worth of its products annually to pay interests on its debts, and that it is in position to receive several hundred millions' worth of products on interest account?

The Position of a Creditor.

We do not think so. In changing over from the position of a debtor country to that of a creditor, this country is in the position of an individual, who, beginning life with nothing, must give labor or the products of labor in direct exchange for everything he receives, but who later accumulates capital and then is able to live in part upon income previously earned.

This situation is more difficult to realize because it has come about so suddenly. Under ordinary conditions a generation or more would have been required to accomplish the change. It would have come about so gradually that we would have grown into it, and all adjustments would have been made as we went along. We have checked our own development and driven our productive forces to their highest capacity in order to supply the enormous exports which have accomplished this change. We have had a balance of trade in four years equal to the aggregate of twenty normal years, and the result is that we are permanently established in the creditor position.

We venture to say the position is permanent, because, barring a similar calamity which would throw us upon the resources of Europe as Western Europe was obliged to resort to us, we do not see how the position can be reversed. The interest account alone is so great that we see no prospect that the principal will be liquidated. Not that our debtors will not rapidly increase in wealth, but the problem is how can they convey property to the United States which we will want to receive. Their wealth will be in lands, houses, machinery and equipment, just as ours is. They cannot send such property across the ocean. We created these credits by sending them the products of our farms and factories, and they will be able to pay in the same manner and no other. Are we willing to receive their products?

The Foreign View.

Foreign financiers and business men, since the war is over, and the necessity for importations from the United States is no longer so imperative, have been advocating a discontinuance of governmental borrowing for the purpose of supplying exchange for private purchases. The British government in January put into force a limited embargo upon imports which touched a few American goods and brought forth some rather hasty protests from this country. The *London Times*, commenting upon these said, in part:

> What the American exporters must also realize is that, on this side, a policy of restricting imports is obviously imposed on the British Government, if only because of the question of the maintainence of the sterling exchange in the United States. The more we can save here on the balance of payments to the United States, the more easily can we deal with the maintenance of the sterling exchange in New York—a matter which still remains a problem for British finance, unless the American business world itself is prepared to take more active steps to relieve us of that responsibility. In that connection it has been very interesting to note that Mr. Robert Benson, at Friday's meeting of the Merchants Trust in London, suggested that it might now be time for us to leave the American exchange to adjust itself, without our going on supporting the value of the pound sterling at $4.76½ in New York by continuing the Government borrowings of dollars, and increasing our "other debt" for that purpose, as has been done during the war.

Mr. Benson's remarks, which were delivered at the annual stockholders' meeting of the Merchants' Trust Company, of which he is chairman, include a story which has done service for similar illustrations so many times in this country that it serves to show how much these business communities have in common. He said in part:

> We have been bearing the burden of maintaining the relation of the sterling standard to the dollar standard, not only up to the day when the United States came into the war, but ever since. It has been very costly borrowing dollars daily, or weekly, at 5½ per cent. in New York, wherewith to pay for all the Sterling Bills offered on London at 4.76 per pound. The committee admit that this can't last; it won't be possible (they say) indefinitely to continue to support the exchange with foreign countries by borrowing abroad.
>
> You know "Potash and Perlmutter," and how Mawrus got into a speculation to build a tenement house, and was extricated by Abe's ingenuity and money. As time went on, Mawrus's greater adventurousness made him the richer of the two, and Abe in his turn was tempted into a great land reclamation and a sort of "welfare of the people" scheme, which drained his pockets and overdrew his account in the firm's books till he could not sleep at night, but kept walking the floor, while his wife begged him to tell her what the matter was. At last he confessed, "I keep thinking of all that money I owe to Mawrus and what he will do." So his wife said, "You come to bed, Abe, and to-morrow morning go down and tell Mawrus, and let *him* walk the floor."
>
> A point often arises in the relations of debtor to credtor when it is the creditor, and not the debtor, who is on the anxious bench. I think that is the case now in our relations with the United States. At any rate, I am satisfied that it is quite as much the interest of the United States to-day to maintain the relation of dollars to sterling as it is ours to maintain the relation of sterling to dollars, and it is about time to leave exchange to adjust itself.
>
> It will probably be a shock and an object-lesson to both parties if the American exchange were to go to $4 per pound for a while. In all probability the immediate result of withdrawing our costly support of it will be that Americans will be able to buy everything from us cheaper for a while in dollars, while we shall be forced to economize because Amer-

ican goods will cost more. Thus we shall begin to get out of debt and put in train the restoration of the sterling standard.

Obviously both countries are best served by a normal exchange rate. The fall of sterling will make American products cost more in England, and tend to curtail British purchases in this country. We will suffer to the extent that they are curtailed and the consumers over there will suffer upon what they must continue to buy. On the other hand, as Mr. Benson says, the effect will be to make British goods cheaper to American buyers and thus promote imports to this market.

It does not seem probable that anything will be done to improve exchange relations between London and New York except as loans are made here for that purpose, or as Americans may make investments abroad and use London credits for that purpose. One effect will be to make it advantageous for American manufacturers to establish branch establishments in other countries for filling foreign orders. They can send patterns and machinery for duplicating American manufactures, and supply goods from countries which are not under the disadvantage of a high exchange rate.

The Financial Minister of Germany, observing the situation, says that inducements will be offered to American capital to operate in Germany, taking advantage of the low German exchange rate to transfer capital to that country.

What of Our Future Policy?

The more this situation is pondered over the clearer it will be that the lesson it carries is one of mutual trade interests. The best results will be obtained for all if the trade of the world is on a fairly balanced and stable basis, so that the industries of every country are fully employed. The final result to be desired is that both production and consumption shall be on the largest possible scale the world over, for that will mean widely distributed prosperity and a high standard of living for all peoples. Production and consumption everywhere rise and fall together. The purchasing power of every country is in its own powers of production, and no people are able to buy the products of others unless they can sell their own.

We are all familiar with those mutual interests in our home trade. The manufacturers and merchants of our northern states who have a good trade in the cotton-growing states are well aware that unless there is a good crop of cotton and a good demand and fair price for the staple at home and abroad their trade will suffer. In other words, the South pays for its purchases with cotton, and will not buy much if it does not have a fair market for its product. The trade of the whole world is thus mutually dependent.

Are we recognizing this fact in our present planning, or taking account of the changed relation in which we stand by reason of our newly-acquired position as a creditor country? Our Commercial Congresses and Trade Conventions are planning for a great increase of our exports, and at the same time for more complete industrial independence so far as our own consumption is concerned. At the sessions of the United States Chamber of Commerce at Atlantic City in November, lists were given of 470 articles which in the past we have been accustomed to import, but which it was said we would henceforth make for ourselves and in many instances be able to export on a competitive basis. The important item of shipping charges, which we have heretofore had to pay to foreign ship-owners, will be reduced or eliminated by the earnings of our new merchant fleet. A revision of the tariff is promised, also, for the purpose of reducing the importations of foreign goods.

This discussion is not for the purpose of taking issue specifically with any of these proposals. Every one of them is commendable, standing by itself, but we may as well recognize, and the sooner the better, that there is a limit to the policy of doing everything for ourselves and at the same time increasing our foreign trade.

We are making no calculations upon how other countries will make payments to us, and the exchange situation shows that this side of the situation cannot be ignored. If we proceed to raise customs duties to reduce importations of any kind which we are now receiving, there will be further advances in exchange rates against us, making exportations more difficult. A very practical question of policy confronts the country and presses for a decision. Shall we give up trying to increase our exports, or shall we consent to an increase of imports, and if the latter, of what kinds?

The Question of Imports.

There will be extremists upon every side of this question. Some will argue for a policy of what they call complete independence, or in other words, isolation, making ourselves self-contained and self-sufficient, regardless of the advantages to be gained by trade with other countries, and ignoring the fact that our superiority in some lines of production makes it profitable for us to trade with others. On the other hand some will argue in favor of complete freedom of trade, regardless of the disturbing effects which may follow upon a radical change in conditions heretofore maintained. Business men are usually opposed to sudden and radical changes, and in this instance probably will place a high value upon permanency as an important factor in our determination of a general policy. The most uninviting prospect to the business community is that of frequent changes in foreign policy.

It is scarcely conceivable that the business men of the United States will be content with a policy which confines them at home. The industries which are able to make their way in

world markets will want a fair opportunity to get into them, and the spirit of our people is likely to develop our policy in that direction rather than in the opposite way. The practical sense of our people doubtless will prompt them to safeguard the great essential industries of the country, as in the past, but perhaps by more scientific methods.

The natural course of evolution as a country develops diversified industries is to protect and promote those in which labor is the more important factor and which are capable of unlimited development, and to open the trade door to raw materials, foodstuffs and other necessaries of life. It is usually regarded as good policy for a country with a great industrial population to exchange its finished products for the raw materials of other countries. The natural supply of raw materials in any country is limited, and the country is depleting its wealth as that supply is used up. This is true as to the native fertility in the soil, which can be replaced only by careful husbandry and is not replaced until higher prices to the consuming population afford compensation.

Our Relations With South America.

Great hopes are being entertained of larger trade with the other countries of this hemisphere, but their only means of payment are in the raw materials and natural products. We cannot hope to deal with them unless we take what they have to offer.

Over the question whether we shall trade on that basis differences of opinion undoubtedly exist, and the issue is entitled to the most careful attention. It should be considered with a view to the future, taking account of our rapidly growing population and the steady rise in recent years of foodstuffs and raw materials. We must recognize that this is no longer a new country with great areas of cheap lands and undeveloped resources, but that the average value of all our farming lands, exclusive of improvements, advanced in value 108 per cent. between the census year 1899 and 1909, or more than 10 per cent. per annum for the period. It is an economic question which ought to be settled with regard to the welfare of the masses of the people, and not as a matter of partisan politics. Our own purpose in this presentation is simply to point out the fundamental facts of the trade situation.

Bond Market for March.

The bond market during March, as evidenced by sales on the exchanges, has shown a substantial volume of business. The general average of prices is slightly lower at the end than at the beginning of the month. It is natural to expect a small decline in demand for bonds as the Fifth Liberty Loan campaign approaches. All our people wish to be ready to do their full share in making that loan a real success. After the successes of the first four government war loans, the people of this country should put forth an extra effort to make the last big financial undertaking of the United States in this war the most successful of all.

The Liberty issues have declined a fraction of a point, except the First converted 4's and the Second 4's, the two issues of which the conversion privilege was reopened in the last Government bond bill. However, good tone exists in United States Government bonds at the end of the month, with prices about ¼ of 1% above the low of the month. There is a noticeable demand for Federal Farm Land Bank bonds on account of the tax exempt provisions.

Foreign Bonds.

The State of Connecticut has enacted a law which permits its savings banks to invest up to 10% of their deposits and surplus in the direct obligations, with a fixed maturity of the governments of the Kingdom of Great Britain and Ireland, the French Republic, the Dominion of Canada or any of the provinces of Canada. Canadian Government and provincial bonds and many Canadian municipal bonds are already legal investments for savings banks in the State of New Hampshire. Vermont also permits its savings banks to invest in all bonds of the Dominion of Canada and provinces, without limitation. This movement is a most significant indication of the growing recognition of the importance and soundness of well chosen foreign securities. The investors of the United States, both institutional and individual, can render a real service to American business by buying carefully investigated foreign government and corporation bonds. Such investments will help to maintain our foreign trade, keep our factories running and labor well employed. The market for foreign securities in the New York market has declined somewhat during the last part of the month, probably in sympathy with the withdrawal of foreign government support to their exchange rates.

Arrangements have been made to provide for the temporary financial needs of the railroads until Congress convenes and appropriates funds for the use of the Railroad Administration. The Director General of Railroads has announced that the Railroad Administration will issue its certificates of indebtedness to the railroad corporations for amounts due on account of rentals and other transactions arising out of Federal control. The War Finance Corporation has announced in turn that it is prepared to receive applications from the railroads for their April 1 requirements on the security of these certificates of indebtedness issued by the Director General. At the close of the month announcement is made that an issue of War Finance Corporation bonds, secured by the certificates of indebtedness, will be sold in the near future. The Erie Railroad Company has offered the holders of its $15.000,000 notes, maturing April 1, 1919, the privilege of taking new three-year 6% collateral notes at 98.

The War Finance Corporation has agreed to take that portion of the new notes which are not taken by the holders of the maturing notes.

Important municipal offerings in March included $8,000,000 City of Philadelphia 30-year 4½% bonds, sold by the city at 100.61 and publicly offered by a syndicate at 101¾, to yield about 4.40%. The last previous issue of Philadelphia bonds was sold in November, 1918, when the cost to the city was 4.329%. The issue was offered to the public on a 4.25% basis. Several municipal issues have been offered and well taken. The policy of states and cities to make public improvements during this period of readjustment in general business is the cause of a greater number of new bond issues of this class in the present market.

The following were the most important offerings during the month:

$12,000,000	American Can Company 6% Notes due in 6, 7, 8 and 9 months on a 6% discount basis.
1,800,000	Autocar Company 6% Bonds, due 1920-1925 at prices to yield 6% to 6½%.
3,000,000	Baltimore & Ohio R. R. 6% Bonds, due 1924 at 97½ and interest, yielding 6.60%.
1,000,000	Blackstone Valley Gas & Electric Co. 5% Bonds, due 1939 at 92½ and interest, yielding 5.63%.
1,400,000	Charcoal Iron Co. of America 7% Debenture Notes, due 1919-1924 at prices to yield 7% to 7¼%.
6,070,000	Chicago, St. Paul, Minneapolis & Omaha Ry. 6% Bonds, due 1930 at 106¼ and interest, yield 5¼%.
1,000,000	Cincinnati Traction Co. 6% Equipment Trust Cert., due 1919-1929, at prices to yield 6% to 6.25%.
600,000	Commonwealth Public Service Co. 6% Notes, due 1921-1922, at prices to yield 7.50%.
5,000,000	Consolidated Gas Electric Light & Power Co. of Baltimore 7% Notes, due 1922, at 100 and interest, yielding 7%.
2,500,000	Eastern Massachusetts Street Ry. 6% Bonds, due 1920-1929, at 100 and interest, yielding 6%.
1,000,000	Farm Loan 5% Bonds, due 1939, at 102 and interest, yielding 4¾%.
1,500,000	Galveston-Houston Electric Co. 7% Notes, due 1922, at 98½ and interest, yielding over 7.55%.
1,000,000	Gera Mills 6% Sinking Fund Bonds, due 1924, at 97½ and interest, yielding about 6⅝%.
11,000,000	Laclede Gas Light Co. 7% Bonds, due 1929, at 100 and interest, yielding 7%.
700,000	Merchants' Heat & Light Co. (Indianapolis) 7% Notes, due 1920, at 99½ and interest, yielding 7½%.
7,800,000	Michigan Central R. R. Equipment Trust of 1917 Cert., due 1920-1932, at prices to yield 5½% to 5⅞%.
7,410,000	New York Central R. R. Equipment Trust of 1917 Cert., due 1920-1932, at prices to yield 5½% to 5¾%.
4,135,000	New York, Chicago & St. Louis R. R. 6% Bonds, due 1931, at 94 and interest, yielding about 6¾%.
1,980,000	Niagara, Lockport & Ontario Power Co. 6% Bonds, due 1958, at 94 and interest, yielding about 6.40%.
1,800,000	Palace Hotel Co. of San Francisco 6% Bonds, due 1928, at 100 and interest, yielding 6%.
2,000,000	Ralston Purina Company 6% Notes, due 1921-1925, at prices to yield 6.75%.
1,850,000	San Antonio Belt & Terminal Ry. Co. 6% Notes, due 1924, at 98¾ and interest, yielding 6.30%.

Municipal.

4,452,000	Cleveland (Ohio) 5% City Bonds, on a 4.70% basis.
1,500,000	Cleveland (Ohio) 5% School District Bonds, on a 4.70% basis.
331,400	Flint (Mich.) 5% Bonds, on a 4.70% basis.
304,000	Franklin County (Ohio) 5% Bonds, on a 4.70% basis.
1,008,000	Minneapolis (Minn.) 4%, 4½% and 5% Bonds, on a 4.70% basis.
8,000,000	Philadelphia (Pa.) 4½% Bonds, on a 4.40% basis.
1,000,000	Salt Lake City (Utah) 4% Bonds, on a 4.70% basis.
8,000,000	State of Louisiana Port Commission 5% Bonds, on a 5% basis.
3,000,000	State of South Dakota 5% Bonds, on a 4.70% basis.
200,000	South Bend (Ind.) 4¾% Bonds, on a 4.50% basis.
450,000	Syracuse (N. Y.) 4½% Bonds, on a 4.35% basis.

British Investments.

We gave last month an interesting extract from the address of Mr. Robert Fleming, Chairman of the Metropolitan Trust Company, London, to his stockholders at the annual meeting, and below we are giving one from the address of Mr. Robert Benson, Chairman of the Merchants Trust Company, another British investment corporation, in which he tells something of the experience of that Company in making investments in various fields. These statements are interesting for the comments which these bankers make upon the entrance of the United States into the world field, and also for the illustration they give of the service and risks of capital in developing the world's dormant resources for the good of mankind. We lay emphasis upon the latter demonstration, because in all the current discussion about social conditions and the relations of capital and labor, there is usually no hint that capital serves anybody but its owners. The idea that capital employed in productive industry is rendering service to the public rather than to its owners rarely appears, and yet this is one of the most vital facts in the whole controversy.

Mr. Benson, addressing the stockholders of the Merchants Trust Company at their annual meeting, March 5th last, said, in part:

The Merchants Trust was formed 30 years ago to distribute the risk of investments of capital all over the world. A people's foreign investments, as the ex-Kaiser said 10 years or more ago, are a war-chest better than fine gold. Thus our capital, exported originally in the form of products of British industry, for which we took deferred payment (payment in bonds and shares instead of cash), strengthened the position of Great Britain as the creditor country;

the annual payment of interest by the foreign debtor contributed in peace time to pay for necessaries of civilized life produced abroad, and, finally, the bonds themselves served as acceptable payment abroad for food and munitions wherewith to win the war.

"The International Race for Reconstruction."

Far away the most profitable locality has been the United States. With the best will in the world to invest at home or in the Colonies, we never succeeded in making money in either of those fields. Whether it was our own fault, or the fault of the field, is a difficult question. Perhaps we were neither lucky nor clever enough, and our experience may not be borne out by that of others; or, possibly, political and economic conditions contributed to loss. Statistics of production per wage earner per annum and the relative horse power employed in Great Britain compared with the United States show that industrial production per head is low in Britain and is mainly responsible for low wages; while high production per head has made possible high wages in the United States. The same tale is told if you compare the statistics of tons of coal produced per annum per person employed in the United Kingdom, United States, Australia, New Zealand, and Canada. The average for the last 26 years is about 270 tons in the United Kingdom, 550 tons in the United States, 440 tons in Australia, 450 tons in New Zealand, and 430 tons in Canada. One explanation is that coal is harder to get in the United Kingdom. But that is not a sufficient explanation, because the tons produced in the United Kingdom show no increase from 1886 to 1912, while elsewhere they show a large increase. The statistics for 26 trades, as well as for coal, are to be found in Dr. Gray's "Eclipse or Empire?" Nisbet and Co., 1916), pp. 148-50, they are a blow to our complacency, and a spur to British pride not to be beaten in the international race for reconstruction. The older one gets the more one feels that it is necessary not merely to work to live, but to live to work.

Talking things over some years ago with an economist and Cabinet Minister, at a moment when we were smarting under losses incurred in trying to assist the development of electrical power supply and the manufacture of electrical machinery, I ventured to assert that it was hardly possible to find a new enterprise in this country to put money into without the producer being sacrificed to the consumer, or else being undersold by the big foreign manufacturer. In the one case I gave him the example of power supply in the London area, and in the other a large engineering establishment in the north. He retorted that there were hundreds of little industries fighting their way upward with good management and surviving. Probably both statements were too extreme; but they are not inconsistent. The fact remains that the Merchants Trust has lost capital hitherto on the average at home and in the Colonies and on the Continent of Europe, but has more than made it up in the United States, in the River Plate and elsewhere.

Great Britain's Changed Position.

The former position of Great Britain as the great creditor nation is challenged. America is now a creditor nation, and we owe her about £1,000,000,000, mostly at short notice. Simultaneously the position of the Merchants Trust is changed. In our endeavor to assist to our utmost capacity to win the war the Merchants Trust sold, or lent, to the Government £1,000,000 of securities. We sold such of our American securities as paid a comparatively small rate of interest, and now hold instead £515,000 War Loan and War Bonds, besides some £485,000 of dollar securities which pay higher rates of interest and are lent to the Government. These and other dollar securities, which the Government did not want to buy or borrow, form to-day a hedge against the risk of a fall in sterling exchange. Much as we desire to help to restore the creditor position of the nation by investing money where we have heretofore received the best return—namely, in the United States—the probability is that the business of investment in that country has come to an end for a time; indeed, if America desires to collect the principal and interest of the debt that Europe already owes her she will probably have to take payment in securities, as Great Britain did when the positions were reversed after the Civil War in America, 1861-65. Our own duty now is to use our capital so as to assist in developing the productive power of Great Britain and the latent resources of the Empire.

For instance, branch railways in India, new railways and irrigation works in Egypt and Africa generally, also in Mesopotamia if it comes within the British sphere, will contribute to create wealth in those vast potential fields; among raw materials, cotton, oil, wool, rubber, iron ores are needed in greater supply; cotton production especially must be increased where it will grow successfully, and may require £10,000,000 a year for 10 years; renewals and repairs of ships and railways at home will take any amount of money; so, too, will key industries, industries captured from Germany, and economies to old industries, such as centralizing and developing the electrical power supply as proposed by the Coal Conservation Sub-Committee, whereby possibly £100,000,000 per annum may be saved. This programme will afford almost unlimited employment for British labor and brains, together with savings, past, present, and future; and the finance of it ought to present no difficulty to British banking wherever the expenditure is within the Empire, nor yet to British trust companies, whose object is to invest in good securities based upon a good enterprise. But the £100,000,000 capital of the trust companies is fully invested already. And even if it were cash, or saleable for cash, it would go but a little way to meet so vast a demand. Everything turns on our having the best possible banking system.

The Double Income-Tax Difficulty.

Another consideration will compel us to abandon the American field of investment—namely, the American income-tax, except in cases where interest is payable tax free. The same difficulty of the double income-tax militates against Colonial investments. Nor, I may add, can America afford to take payment in British securities for what Great Britain owes her, and at the same time pay a British income-tax as well as the American income-tax. Reluctant as the Inland Revenue may be to lose a chance of taxing a foreigner, the price of America's co-operation in developing the estates of the Empire, speeding up production and assisting us to get out of her debt, will be that British securities held by Americans must be tax free. It is well to recognize at once that in this case the debtor really pays; for the creditor when he lends and settles the term of a loan naturally puts the tax on the borrower and demands tax-free bonds for himself. Also he will probably seek for bonds payable in dollars or sterling at his option, just as after the Civil War European lenders of money to America insisted on specific payment in gold dollars. This is a point to be remembered in the simplification and reform of the Income-Tax Acts so long overdue; so as not to warn off American capital, but to facilitate our chance of paying our debts in securites as well as in goods and services. A good banker knows well that in such cases the best way of collecting debts is to lend more. This is what Great Britain did for America during her period of reconstruction, 1865-79, when the *rôles* were reversed.

British Labor Situation.

British industry has been facing a very grave situation during the past month, pending a settlement of the threatened strike by

coal miners, railway employes and transport workers. A convention of wage-earners and employers was held on the last of February, at which a commission made up from both parties and headed by Justice Sankey was created to make an investigation. The results of the investigation have not been fully published, but it appears that at least a combined strike of the three organizations has been averted by important concessions.

The main features of the agreement with the railway employes was arrived at in January, but a misunderstanding developed over those terms which now has been adjusted, and the strike order has been rescinded. The claims of the transport workers have also been satisfied. The representatives of the miners have recommended that the concessions offered be accepted. but a vote of the unions will have to be taken. The recommendations carry a wage increase of 10 per cent.

The situation has been very critical, but because it was so there has been a very broad and earnest discussion which has no doubt been educational to all the parties. The leader of the coal miners, Mr. Smillie, planted himself squarely upon the proposition that the miners were entitled to better living conditions than they have had in the past. His questions to witnesses laid emphasis upon housing conditions, average earnings, and reverted to prophecies of disaster made by employers when wage increases or shortened hours were proposed in the past.

The witnesses representing other industries which would be unfavorably affected by higher fuel costs did not dispute that in many instances living conditions were very bad in the mining villages, but urged that they would not be bettered by any action that adversely affected the general position of British industries and reduced the demand for coal. Mining conditions vary in Great Britain as they do in this country, with the thickness of the coal veins, and there as here apparently the situation is aggravated by too much off time in average years. In other words there is too much irregularity in employment, and too many men for the work. A noteworthy statement by Mr. Sidney Webb, the Socialist writer, who served as one of the Commissioners, was that in the United States miners made £10 ($50) per week.

Conservative Labor Leaders.

A feature of the whole situation has been the conservative attitude of the recognized union leaders. They have used their influence to discourage extreme demands, and their public utterances have been characterized by ability and often by a knowledge of economic principles much above the ordinary. Mr. J. H. Thomas, head of the railway men's order, in a speech in the House of Commons explained the aggressiveness of labor at this time and at the same time gave warning against its unreasonable expectations. He said:

I frankly admit that one of the problems that we have got to face is the unfortunate belief that there is an unlimited amount of wealth in the country. (Hear, hear.) The war is largely responsible for that. It is no use disguising the fact that large numbers of the working classes, who were told a few years ago that it was impossible to concede a few millions for old-age pensions or social reform, and who found money poured lavishly without stint during the war, have got the impression that there is an unlimited amount of wealth in the country. I know, and know well, that Russia is the best answer to that fallacy. I know that normal wages are to-day a hundred times higher in some parts of Russia than they were three years ago. The spending power of those wages, however, is even less than it was before. So far as we, the workers, are concerned, it is not the amount of money we receive that matters, but the spending capacity of the money. Recognizing that, I want the Government to keep clearly in mind that the present basis of currency, the artificial nature of the currency, and its present inflation are all things that must tend to unrest, because, if the working classes get an advance of 5s. to-day, in a few weeks' time they find the cost of living going up 6s., and so they get it into their hands with someone always waiting to take advantage of the situation.

The Miners' Plea.

Mr. Smillie, head of the miners' union, addressing the Prime Minister in presenting the demands of the union, said, in part:

Mr. Smillie.—Up to the present time the other industries and those engaged in them, and, I fear, the Government, have not cared to inquire, nor to consider, what the conditions of living or the lives of the producers in that important raw material have been. I well remember the time when this country was establishing its pre-eminence in the production of iron ships. I remember the mining community working at wages of 18s., 19s., and 20s. per week, with the men going to the pit five and six days per week, and in some cases going without food, and their children without food. I happened to be one of them; and when I am accused in the Press this week of evidently caring more for the mine workers in the little village in which I live than for the community, well, though it is hardly true, and knowing the condition of the people, as I do, it is certainly not a selfish thing to endeavor to place your own class, the people with whom you have been associated all your life, on a footing that will enable them to live in decency, and that their children will not be going without boots, without decent clothes, and be underfed. Now that was the position when coal was being put into the trucks on the railway sidings in some cases at 4s. and 4s. 6d. a ton. But the men engaged in the other industries, in the steel and shipping industries, were receiving far higher rates of wages, two or three times the rates of wages that our people were receiving underground. Now I am not prepared to admit the justice of a position of that kind, and I am not prepared to admit that we should go on living under unnatural conditions merely to provide cheap raw material for the manufacture of our industry, and I do not think the Government will claim that we ought.

The Prime Minister.—I agree.

Mr. Smillie.—It is true that we are asking for a higher standard of life for our people; and we have received very considerable encouragement in that direction from your own published speeches; that you think the time has come when you consider every effort ought to be made to raise the standard of living in this country.

The Prime Minister.—I quite agree.

MR. SMILLIE.—But, mark you, we have put forward that claim not because we believe that this is all to which we are entitled. The mineowners have always told us, and you tell us now, if you hand the mines back to them for free competition amongst each other, that we have no right to a voice in the working conditions in the mines—no voice on the commercial side at all. They say:—"We invested our money in those mines and they are ours, you are merely our hands." Now I say we invest our lives in those mines, which is of greater importance than the capital of the employer, and to that extent I have a right to say as to what the conditions shall be, not merely the working conditions, but we are entitled to have some information on the commercial side of the thing also. I believe, Sir, that you have the data at hand, if you cared to use them, to be able to give us a reply on the wages question as to whether or not the claim which we put forward is unreasonable.

Lloyd George's Plea.

The Prime Minister, Lloyd George, in pleading for time for an impartial investigation turned the advocacy of a League of Nations by the labor organizations to his own support in an effective manner. Replying to Mr. Smillie and the miners' committee he said, in part:

I have been recently engaged in Paris, and I gave a great deal of time to it, in trying to set up machinery for settling disputes between nations, without either force or the means of force. I have been assured, and I think my information is accurate, that the working classes of all lands were behind that demand for a League of Nations, for a sane settlement of disputes instead of an insane one, for the substitution of reason for force, and conciliation for conquest. I am glad to be able to say that we have set up machinery, and I hope strikes between nations are over, with all the terrible consequences which were witnessed during the last few years. I hope that has gone for ever. Is it conceivable that, having set up machinery for substituting sane means of settling disputes, in place of one party forcing the other through distress into surrender, having set up that machinery between nations, and the workmen of the world all demanding it, is it conceivable that that area of conflict is to be transferred to industry?

We all know what this is going to mean; and if I point it out, believe me I am pointing it out in no sense of menace, because we must all have been thinking it out, and as humane men we want to avert it; and therefore, my suggestion is that we should introduce into the industrial world those methods of conciliation which you have all been advocates of, and none more, if I may say so, than your president in the international world; and that we should here set up a tribunal, first of all to examine the facts. That is all I want. If you are right, that 30 per cent. advance might be given to the miners now, instantly, without giving time to industry to adjust itself to it —if you are right in saying that a 30 per cent. advance could be given to miners on their wages, that you could reduce their hours of labour from eight to six at that increased rate, without hurting other workmen who are equally meritorious in other trades equally essential to the community, without bringing starvation to the lot of other workmen—if you are right, surely there must be a means of finding that out besides trying to starve each other out. There must be.

Human nature is not so bankrupt in resources and sense and conscience as all that; and, therefore, I beg you, and I am not ashamed to beg you, as head of the Government, to agree with us in the setting up of a Commission that will investigate these facts, with an imperative order for them to report by March 31, which is only a fortnight later than your own time; that they should also investigate all those other conditions to which you attach so much importance, and to which I attach importance as well—mining royalties and their effects upon the industry, profiteering and its effects upon the industry, whether you could best conduct your industry by means of joint control, nationalization, or any other method in the interests not merely of the miners, but of the whole community; because, after all, the coal is not there for the interests of any industry, it is there for the benefit of the whole nation.

Lloyd George's statement of the British railway situation is also most interesting, showing how there, as in the United States the increased wages to employes come back upon the traffic, to be borne by the community, and in the last analysis, by the consumers of goods, of whom the greater number are the workers themselves. His treatment of shorter hours as a remedy for unemployment is equally to the point. He said:

It is a great mistake to imagine that there is an inexhaustible reservoir of profit that you can dip into at any moment without burdening any trade or business. There is no better illustration than the railways. At the beginning of the war the railways of this country were making a profit of £50,000,000, ($250,000,000,) which produced a dividend of under 4 per cent. That is not a very extravagant return for capital, a great deal of it invested by small people. It is not invested in big sums as a rule. What has happened since the war? Owing to increases in one thing or another, in wages, curtailment of the hours of labour, and increased cost of material, we have added 90 million pounds ($450,000,000) to the cost of running the railways. Where is the fund of profit there? It is all gone. Who is to make it up? The first-class passenger will not produce much if you double or treble his fare. Every railway manager knows that. We have to get it from the consumer in some way or other—from your third-class passenger, your goods, your food. That is the only way to get it. I only want every section of the community, when it puts forward demands, to bear these essential facts in mind, that all these demands are passed on to someone else, and that there is a stage where if you pass them on they crowd on top of some poor industry that can barely march now, and it is crushed. That means unemployment for somebody.

There is a theory that one way of providing employment is by reducing the hours of labour, so that there will be enough work to go round at the same wages. Reduce the hours of labour to what is legitimate and what is fair and possible, but to reduce them merely in order to create employment for exactly the same wage is the one way to make unemployment over the whole country. I should have thought that that stood to reason; it is really so elementary. It increases the cost of a particular commodity which a trade is producing, that commodity is an ingredient in something else; if you put up the price you diminish the purchasing capacity, and if you diminish the purchasing capacity you diminish employment. Not only that, but, as I have pointed out, you destroy the overseas trade upon which this country depends more than any country in the world. I would despair if the working classes of the country did not realize that elementary fundamental principle.

All of which is just as true and pertinent in the United States as it is in England.

THE NATIONAL CITY BANK OF NEW YORK

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, MAY, 1919.

General Business Conditions.

THE business situation in the United States has improved very much in the last month, and the outlook is encouraging. It is a very great gain to have dissipated the atmosphere of pessimism which was prevalent in February, and that has been accomplished in large degree. The idea that the bottom was about to drop out of all markets, and that a grave period of unemployment and perhaps social disorder was pending, is no longer entertained. The people, north and south, east and west, have disposed of that bogie by simply continuing to buy goods at the greatest rate ever known, evidently without apprehensions of poverty or revolution. We conclude that the great body of the American people are disposed to go along in a normal way, whatever the rest of the world may do, and as their buying capacity is about equal to that of all the rest of the world put together, they can do fairly well all by themselves if they try. With strikes, revolutions, allied dissensions and all sorts of exciting news served up in the headlines daily, they have been busy welcoming home the boys from France, and incidentally and perhaps for that reason, the women have bought all of last year's high-priced dry goods remaining in the stores, and thereby put the merchants at ease. The old stocks of textile goods have been cleared out, and current demands now require current production. The whole situation in the textile industry has changed. Confidence has been restored, prices have recovered part of the midwinter decline, and the mills are resuming full time operations. The strikes have been generally settled, but in some instances the demands of wage-earners have been held in abeyance pending recovery in the industry, and there are reports that they will be renewed.

Raw cotton had a rise of about 5 cents per pound during the month, and with the price now only a little under 30 cents, it would seem that argument in favor of a reduction of this season's acreage already requires revision. Wool prices are stronger both in England and this country, and recent sales by both governments have shown that the stock on hand was passing into manufacture at a rapid rate. The goods markets are also strong.

Trade in all lines which reflect common consumption is excellent, the only light business being in the lines related to construction and investment. A symptom of free buying for family consumption is to be seen in silverware. Last year the production was 40 per cent. below normal, but manufacturers are now busy on the greatest volume of orders they have ever known. The jewelry trade in all grades is booming from the cheap goods to diamonds. Sales of diamonds are the largest ever known and at high prices. In rings and articles for the common trade, business is immense. It looks as though the return of the soldiers might be a factor here also. The June crop of weddings will be the biggest crop of the year, notwithstanding the Government's guaranty on wheat.

There is some unemployment in the large cities, particularly in the vicinity of demobilization camps, but the authorities are over their worry on this subject. As a rule the returning soldiers have found their old places ready for them, and the substitutes, including many thousands of women, are finding employment also. What trouble there is over employment is in suiting the individual applicant and the employer. There is a cry for farm labor and household help from nearly every part of the country, and there is naturally more of a disposition among employers to get rid of unsatisfactory labor than was the case when the labor shortage was acute. The indifferent and incompetent worker, whom nobody wants to keep, and who has lost the habit of steady work if he ever had it, is afloat again.

Construction Work is Light.

To sum up the situation there is a gratifying recovery of sentiment in trade circles, brought about by the sustained consumption of goods and the widespread prosperity enjoyed by the agricultural class. There is no gainsaying that the latter is the backbone of the business situation, and will be for the year to come. The farmers are the largest single group in the population, and their prosperity reacts directly upon all the towns and cities where the agricultural

interest is dominant, and extends beyond that to the manufacturing districts. The farm implement business is busy, and the textile industries feel the same stimulus. The automobile manufacturers are looking to the same quarter for much of their business.

On the other hand construction work representing capital going into new investments is light. House-building, held in check for several years, is reviving in a moderate degree, stimulated by rising rents, which are general over the country. Industrial construction is light, for one reason because there was great expansion in this line during the war, and because the investors are not as readily reconciled to high prices as merchants are. The latter ask only to be assured of stable prices for a few months, during which they will turn over their stocks, but the investor who is erecting a building or equipping a plant which is expected to earn interest on the cost for many years to come, wants to be assured of stability at least until he can write down a part of the cost out of income.

Another reason, as we have explained from time to time, is that present taxes and government loans take up the accruing new capital which would otherwise be available for new business enterprises. The growth of a country's industries, and the rapid changes in industry which in the past have distinguished this country above others, are dependent upon the constant accumulation of new capital. The new ideas which are continually born in the industrial world require that old methods and equipment shall be scrapped. In short, industrial progress is always destroying old investments and requiring new capital. If capital is not accumulated, industry must get along with its old methods.

The steel industry suffers greatly from this lack of investment enterprise. The lumber industry suffers from the same cause, although lumber in these modern days is not as intimately related with large construction work as is steel and other fireproof materials. The lumber consumption is more widely distributed, and the prosperity of the farmers and the many communities responsive to conditions in the agricultural districts will give a good volume of business to the lumber interests.

The metal industries, excepting silver, which, however, is produced chiefly as a by-product, are all depressed by this lack of investment enterprise. The copper mines are operating at not above 50 per cent. of their capacity, and the lead and zinc producers are in a similar situation.

It is unfortunate that the railroads and public utilities are in such an uncertain and impecunious state that although the public interest requires that large expenditures shall be made for their improvement and development, nobody is in position to make them. The Government Railroad Administration submitted to the last Congress a request for an appropriation of $750,000,000 to enable it to meet maturing obligations and make expenditures that were vitally required by the service, but the political controversies which largely occupy the attention of Congress prevented any action being taken. The end of the session came with the political elements deadlocked, and the Railroad Administration has been obliged to appeal to the bankers of the country to advance money for temporary necessities.

Effort to Stabilize Prices.

The above conditions, affecting investment enterprise and the state of the great transportation industry, and the unsolved problem of credits for export business, are all unfavorable to a full degree of activity in the steel industry at this time. It is undoubtedly affected also by the uncertainty as to prices which has prevailed. Nobody, of course, will buy except under absolute compulsion while official conferences are in progress over proposals to reduce prices. The War Industries Board, acting from a commendable purpose to overcome the spirit of hesitancy and uncertainty which existed, brought the iron and steel manufacturers into conference to consider what reductions might be made to encourage a resumption of buying. A scale of lower prices was agreed upon, said to be as low as could be made without reducing wages. It was officially approved, and adopted with the understanding that Government buying, including for the railroads, would proceed upon this basis. The object, as we understand, was not to fix prices permanently, but to stabilize the market temporarily under the conditions of transition now existing, and give assurance to buyers for this year.

The Railroad Administration promptly repudiated the arrangement so far as any obligation upon itself was concerned, declaring that the prices were too high. This placed the situation in a more unsettled state than it was before stabilization was attempted.

We do not believe in the artificial regulation of prices as a regular policy, but much can be said in favor of efforts to guide and stabilize prices at critical times, when the public is likely to be unduly influenced by apprehensions about the future. Extreme fluctuations do not serve the public interest as well as a more steady course, responding gradually to fundamental conditions.

Wages and Prices.

Manufacturing costs in an industry like the making of steel are not easy to determine. They probably vary widely among producers, and they vary widely with the volume of production. In the long run it is in the public

interest that competition shall have play and that the business shall go to the low-cost producers. At the present moment, however, there is another factor to be considered, and that is the wage question. If steel prices are to be fixed by competition to the finish, the wage question will be involved. Ultimately we believe that wages will have to be revised, not merely for the benefit of employers, but for the good of all industry and the entire community, that steel, which enters into all machinery and all construction, may be reduced in price. But with the cost of living as it is today this is not an opportune time to propose wage reductions. Arguments can be made for them, and a good case made out for the contention that wage-earners as a class would gain more by full employment at lower rates, but the defect in the argument is that it will not convince the wage-earners; at any rate they want their own time to make up their minds to the policy. It will not pay to force such a policy until they see that it is to their own advantage. In the new efforts to bring about more harmonious relations between employers and wage-earners the greatest emphasis is laid about the right of the latter to have a voice in determining the general policies which govern industry and affect both classes, and here is an instance in which that question arises. Would it be better for all concerned to reduce the cost of steel, including wages, in order to enlarge the output and pay in the aggregate larger actual wages, although the rate might be lower?

As soon as agricultural production is restored to normal volume over the world the cost of food and other necessaries will recede and the factor mainly responsible for the controversy will thus to a great extent disappear. This is the real basis for the argument in favor of dealing with wages and prices for the moment in a tentative manner, bridging over the time until there is less obstruction to an amicable settlement. The Railroad Administration seems to be distinctly adverse to any controversy with its own employes, although the advances granted in that quarter are less likely to be revised to correspond in a decline of the cost of living than any other advances in the entire range of industry.

Government Finance.

The Secretary of the Treasury gave an agreeable surprise to the country in asking for only $4,500,000,000 by the Victory Liberty Loan, instead of $5,000,000,000 or $6,000,000,000. That was enough to assure the announcement a good reception and to quiet the criticism of those who thought the rate should have been 5 per cent, for after all it has been the unwieldy size of the issues which has most unfavorably affected their market position. The terms are all favorably regarded. The conversion privilege, which allows the holders of either the taxable or tax-free notes to exchange them freely into the other series, gives the entire issue the benefits of either plan, and is an excellent feature.

The notes are offered in two series, those which are tax-exempt (except estate or inheritance taxes) paying 3¾ per cent, and those which are subject to income surtaxes, excess profits and war taxes (also estate and inheritance taxes) paying 4¾ per cent. Both series will be issued, either in bearer form or registered, in denominations as low as $50. The notes will be dated and draw interest from May 20, 1919, and mature on May 20, 1923. Interest will be payable semi-annually on December 15 and June 15, and the notes may be redeemed at the option of the United States on June 15 or December 15, 1922, in whole or in part at par and interest on four months' notice. These redemption provisions are calculated to help maintain the market value, and the Secretary of the Treasury is also authorized for the period of one year after the termination of the war, as fixed by the President's proclamation, to purchase the notes upon such terms and conditions as he may prescribe, up to one-twentieth of the amount issued. As a final provision to sustain the market, no over-subscription will be received. Subscriptions up to $10,000 will be received in full, but in the event of over-subscription those above $10,000 will receive an allotment in the discretion of the Secretary of the Treasury. Payments upon subscriptions will be due, 10 per cent on application, 10 per cent on July 15, 20 per cent on August 12, 20 per cent on September 9, 20 per cent on October 7, and 20 per cent on November 11, with accrued interest on deferred installments.

The selling campaign is making satisfactory progress, indicating that every district will fill its quota, and that the distribution to the public will be broader than at one time anticipated. It is highly desirable that a further expansion of bank credit on war account shall not occur. This consideration is especially urgent because the Secretary of the Treasury has definitely stated that this will be the last organized selling campaign. It is evident that a large amount of borrowing must yet be done, and that the banks will be expected to take most of it.

Future Borrowing.

The amount of Treasury certificates outstanding is now approximately $6,000,000,000, and one more offering is announced, to be dated May 1, and closed May 8. One issue, of which about $365,000,000 is outstanding will mature early in the month and be retired. The fifth loan, therefore, will fall something over $1,500,000,000 short of clearing up the certificates. The first installment of income and profits-taxes yielded less than $1,100,000,000,

and there are two more to come. On account of the short time which existed between the passage of the tax law and the date of payment for the first installment, tax-payers were permitted to make the first payment upon the basis of an estimate of profits, and Treasury officials expect that the second and third payments will largely exceed the first. The law was planned to produce $6,000,000,000, but the first payment, even allowing that it is much short of one-third, indicates that the total was over-estimated. If the total shall be $5,000,000,000, with $4,000,000,000 yet to come, which looks like a very optimistic expectation, there will be less than $2,500,000,000 in excess of the amount of certificates to be redeemed. Expenditures are still running at the rate of about $1,000,000,000 per month, but these should show a large falling off at an early day. The public has no information for an estimate upon this point, but evidently it will be necessary to issue Treasury certificates throughout the summer in considerable quantities, and by fall to adopt some means of funding them, perhaps by placing bonds on sale at Treasury offices and through the banks.

Small Bond-Holdings.

The Liberty Loan Committees throughout the country will render a great public service by exerting themselves to hold in check the efforts going on to induce the small holders of Liberty Bonds to dispose of them. The pressure of these bonds upon the market has passed the most severe stage, and the floating supply will be gradually absorbed. It is unfortunate that any subscriber should have found it necessary to sell them at a loss, and especially that people who have not been accustomed to investments of this character should have realized a loss on their first venture. The discount on the bonds has not been due to any doubt about the security, but solely to the fact that the offerings were temporarily larger than could be readily absorbed. Hereafter the offerings will be comparatively small and the demand will go on forever. Every holder should be encouraged to keep them for a premium.

During the past month the War Finance Corporation sold $200,000,000 of bonds, dated April 1, and running one year at 5 per cent. interest. These funds are to be used for the most part for loans to railroad companies to enable them to meet maturing obligations, pending further legislation for their relief.

The Government of the Philippine Islands has sold in this market $10 000,000 of its one year Treasury Certificates for exchange purposes. This action is in accordance with the authority granted in the act of Congress fixing the monetary standard for the Islands and providing for its maintenance. When the balance of payments runs against the Islands in foreign relations, the government sells its obligations abroad to create credits against which it may sell drafts, in lieu of shipping gold. This policy makes it practicable to maintain the currency of the islands, which is silver and paper, at a fixed relation to gold with a small reserve of the latter metal.

Foreign Trade and the Exchanges.

The exchange situation, or in other words the broad question of the means and cost of making remittances to the United States, is the most interesting factor in foreign trade prospects. The developments of the last month have not been of striking importance, but they are of the same character as those to which we have heretofore directed attention. Exports from this country in March were valued at $605,000,000, against $523,000,000 in March of last year. Imports in March were valued at $268,000,000, against $242,000,000 in the corresponding month last year. The trade balance in favor of this country was $337,000,000, and for the nine months since July 1 last aggregated $2,790,000,000. This trade balance, pleasing as it is, presents the greatest trade problem we have ever had to deal with. All the European exchanges, except Spanish and Swiss and Dutch are now in "favor" of the United States, as that term is commonly used. That is to say, more is owing to the United States from these countries than by it to them. In the case of Holland the exchanges are about at par, while those of Spain and Switzerland are slightly against us. We have not yet liquidated a loan negotiated in Spain last year, when we were supporting sterling there, and there is a similar reason for the situation in Switzerland. In Argentina the rate is still slightly against us, but that is regarded as temporary also, in view of world conditions.

Unfortunately, this "favorable" situation, while signifying that trade is running our way now, makes it more difficult for our foreign customers to find the means of payment, and causes the foreign governments to raise obstacles against the importation of American goods. The American Chamber of Commerce in Paris and Bernard Baruch, representing by government appointment American commercial interests, are reported in recent cable dispatches as protesting against the French embargo, but it is quite certain that France will not permit the free importation of American goods unless their payment is arranged for in some other way than by the exportation of French gold. The French franc, normally worth about 5.18 to the $1.00, is quoted at 6.07, and the Belgian franc at 6.30.

Utilizing Personal Remittances.

The American Relief Administration, headed by Mr. Hoover, which is operating with the $100,000,000 fund provided by Congress for exporting wheat to foreign countries, has de-

veloped a plan for utilizing the remittances which persons in this country desire to make to friends and relatives in eastern Europe as a means of converting the paper currencies of those countries into American funds. Under existing authority of law the Federal Reserve Board, through its department of Foreign Exchange, will take charge of all exchange transactions between the United States and the countries where the Commission is operating. Persons desiring to make remittances to Poland, Finland, Roumania, Serbia, Czecho-Slovia, Jugo-Slovia, German-Austria, Bulgaria and Turkey, will make application through local bankers as usual, but the bankers instead of doing business directly through foreign connections, as commonly, must operate through the Federal Reserve organization and the Relief Administration. The latter will thus receive funds in the United States and pay out in the above countries the local currency which it receives in payment for food supplies. The Relief Association becomes the channel through which remittances flow, and the remittances reach the persons for whom they are intended in the money of their country at current rates of exchange.

The arrangement illustrates how credits in this country are availed of in payment for our exports. In this case the credits consist of money paid in for personal remittances to friends abroad. Italy is not included in the list of countries above because Italy's imports are being handled through her own agencies, and Italian exchange is under control by the Italian Government in the same manner. The remittances of Italians in America have been the principal factor in paying for Italian purchases here, after the loans by the United States Government.

The Needs of Europe.

These remittances sent from this country, mainly by immigrants who are hard-working people of moderate means, to friends and relatives in the disturbed countries of Europe, are an important factor in relieving the distress which exists over there, but a vastly greater measure of relief is needed, and America should not be content without providing it. This country can take little credit for the gifts which represent the savings of immigrants. This is one of the great emergencies of the world's history, and the story of it will be told throughout all time. It will be to the lasting honor of America, crowning her achievements in the war with a greater glory, if this country will go to the limit of her ability not only in providing food for the starving but in helping these stricken people to start their industries and get upon their feet again. The first great want is relief for their personal necessities, but they need help to put them in the way of being self-supporting; otherwise there will be many years of prostration, with poverty, suffering, and disorder, the results of which will extend to the whole world. Considerations not only of humanity, but of self-interest should prompt this country to give all the help within its power. No part of the world can hope to have abundant prosperity when so large a part of the world is crippled and unproductive. All of these countries need not only food, but working capital, raw materials and machinery. Provided with these their recovery will be comparatively rapid, and eventually they will be able to discharge their obligations in full.

Private Credits Inadequate.

Private credit is unable to cope with this situation. The needs are on too vast a scale, and the people of this country are too far away to take a large part in it as individuals. We may ring the changes upon foreign investments and some will be made, but the total will be far below the sums needed. There is only one way in which the resources of Europe can be pledged in such manner as to promptly command credit upon a great scale, and that is through governmental agencies, the foreign national and municipal governments, and even then the results will be inadequate unless supported here by the United States government.

The situation in Europe is not an inviting one in the eyes of the individual investor. The destruction of wealth and man-power has been appalling, the countries are burdened with debts beyond any previous experience, and most serious of all the whole social and industrial organization has been unsettled to such an extent that confidence in future policies and purposes is shaken. We are not expressing our own opinions about Europe, but stating the views which naturally are current, and which will interfere with popular investment in European securities at this time.

National Credit Required.

Considerations, however, which thus affect individual investors need not and should not influence a government in the same degree. It can act upon a broader view of national duties and interests, as it did in entering the war. It was actuated in that instance by a double purpose, to wit: to play an honorable part in a world crisis, for the sake of humanity, and to protect and promote directly the interests of the United States. In the present emergency there is the humanitarian argument for aiding in the reconstruction of Europe, and it is supported by the argument that by lending our national credit for reconstruction as well as for war this country can assure prosperity at home during the period of readjustment.

The action of Congress in authorizing the War Finance Corporation to advance credit or money to the extent of one billion dollars to promote foreign trade is largely ineffective, because it requires the credits to be first granted by American exporters or bankers, who must carry the risk until the credit is finally liquidated. Individuals will not take these risks with which they are unacquainted in amounts that will accomplish the purpose in view. If, however, foreign governments with the aid of the United States government will establish these international credits the business can be done, and the benefits on the whole, both there and here, will justify the governmental aid.

Credits to Foreign Trade Helpful to Ourselves.

It is short-sighted to regard loans to be made in this country to pay for the products of this country, at high prices, and at a time when a considerable degree of idleness is threatened, as solely in the interest of the borrowers. The loans made by this government to the governments associated with it in the war were made to forward our own interests, and did forward them. And so loans made to foreign governments in time of peace to enable them to purchase products of this country which they would not otherwise be able to purchase, and which in part at least we would not otherwise dispose of or produce, would be made to advance our own interests.

The act authorizing an extension of credit by the War Finance Corporation recognizes the gains to be had by increasing our exports at this time, but it places the burden of carrying the foreign credit primarily upon the exporter. The risks to individual exporters are greater than the risks involved in transactions between governments would be, and the amount of business handled will be small compared with what it might be with the aid of government credit on both sides. The question is whether in the judgment of the country the world emergency is great enough to warrant constructive measures of the first magnitude.

British Gold Regulations.

During the war there was apparent reluctance in London to say anything about the official control over movements of gold. It was admitted that a free market did not exist, but that was treated as a tentative situation of which the less said the better. But within the last month, a definite and open policy of control over gold exports seems to have been adopted. Before the war the discount rate of the Bank of England was relied upon to control the flow of gold, but the international situation is so unsettled, the exchanges so unbalanced and the influences acting upon gold movements are so strong, that the efficacy of the old method is in doubt. Perhaps it would work, but the discount rate might have to be so high as to have a back kick of serious consequences on the London market. There is a protest against raising the interest rate on all loans as a means of protecting the gold reserve.

The theory of the latter policy is to make the terms for money so attractive in London as to check any movement of gold out of the country. To accomplish this the Bank of England in the past frequently has gone into the open market to borrow money, and throughout the war the policy was followed of paying a higher rate upon foreign deposits than upon home deposits. The clearing banks even went to the extent of paying 4½ per cent on foreign deposits while they were lending money as low as 3½. This is a striking illustration of the determination of the London bankers to maintain the pre-eminence of that money market, keeping it attractive to both lenders and borrowers. They appear to have calculated that the 4½ per cent foreign deposits were allocated to Treasury bills paying that rate or better, while the cheaper funds were applied to the choice trade acceptances for which they wished to keep London the leading market.

The policy of discrimination in favor of foreign operators in London has its drawbacks and critics. The latter have urged that British industries and traders were injured by rates made high for the purpose of holding or attracting foreign money, and despite the report of the Cunliffe Parliamentary Committee the policy has been adopted of keeping gold movements under control by the authority of the embargo. Doubtless the authority will be exercised with careful discretion, to interfere as little as possible with foreign financial operations in London, and with the purpose of preventing unnecessary importations and the flow of British capital out to investments regarded at this time as not in the public interest.

Sterling Exchange.

Sterling exchange has better than held its own during the last month, recovering to about $4.67. It is understood that much of the heavy exports of foodstuffs which have gone to England in recent months had been owned for some time, and consequently have not figured in any recent exchange situation. The recovery of the pound sterling after the drop following the unpegging of the rate has inspired considerable confidence that there will be no such decline as in some quarters, including London, had been suggested as possible. Of course there is a point at which the public will come into the market to buy sterling as an investment, the only question being as to where that point is. Some very good ob-

servers think the new gold of British production, from Australia and South Africa, will be allowed to find a free market, in which case it will naturally go to the markets where the pound sterling is below par. At present the British owners of these mines would be able, if unrestricted in the disposition of their product, to ship it to New York and sell the New York credits in London at a premium of 4 or 5 per cent. Inasmuch as gold-mining has suffered by the war more than any other industry, and production is actually falling off in consequence, there is a strong argument in favor of releasing the industry from control.

Probability of Gold Imports.

It is not to be supposed that this country will go to the extent of declining to receive gold in exchange for goods, or of imposing a charge upon it as has been done by Spain and Sweden. Gold is not yet out of favor with people who have goods to sell, but more is not needed in our monetary system at this time, and its acquisition would be considered undesirable.

The use of gold is for bank reserves, the reserves are sufficient for the present volume of credit, and we certainly do not require an expansion of credit in peace times beyond what has taken place in war times. As government borrowing comes to an end the war paper in the banks should be gradually paid off and retired, and unless business is driven at the same high pace maintained in war time the volume of private borrowing will decline. Even if trade is up to the most sanguine hopes it hardly will be under the war time pressure. Bankers as a rule will prefer to get out of the Federal Reserve Banks and keep out save for seasonal or other temporary requirements, and we believe this is the proper view to take. The proper function of the reserve banks is not to furnish a new supply of credit to be used all the time, but to provide a reserve of credit, always available. If this is true the percentage of gold reserves will rise by the reduction of liabilities, and additions to the former will be unnecessary and superfluous. Importations of gold would be additions of idle wealth which would do more good elsewhere.

That, however, is the most favorable view of importations. Experience has shown that superfluous bank reserves do not remain idle indefinitely. They have a way of insinuating themselves into use. In the first place they make money cheap, reducing the rate of interest. This is peculiarly true of the United States, because in no other country is there such unrestrained competition in the banking business. The business is carried on under such a burden of expense that there is pressure to keep well loaned up, and as accumulations occur borrowers are encouraged to use them. At this time the high level of prices is regarded with misgiving, and tends to hold enterprise in check, but the public gets used to new conditions and callous to old warnings, and gradually succumbs to the allurements of cheap money.

Danger of Inflation.

The conditions for inaugurating a boom are present. The present high prices of farm products mean prosperity, not only to the farmers, but to the towns and cities which are closely related to the agricultural districts, and may give a stimulus to speculation in lands and various enterprises. The symptoms of such a movement have been visible, in spite of all the restrictions placed upon the money market in behalf of government loans.

The stock market is very sensitive to the influence of cheap money. Already million share days are in fashion again, in anticipation of easier money, and it is a rule that when a good market develops for stocks and bonds a good business springs up in creating a new supply. Enterprise is stimulated, and soon everybody is happy in the midst of prosperity and quite oblivious to the level of prices and all warnings that may be offered.

The reader may think all this is just what is wanted in the present juncture, and that if gold imports will do it the sooner they come the better. But gold imports are not required for a healthy readjustment. Money will naturally become cheaper through the elimination of government borrowing and a normal reaction will follow. Additions to our gold reserves are being made now by the production of American mines, and further additions by importations would either be unused, or if used produce an unneeded and undesirable stimulus. With more than our normal share of the world's gold, the tendency must be, when its influence comes into play, to have a higher price level than other countries, thus promoting imports and making exports more difficult. The trade position of the country would be improved by getting rid of some of the gold now in our possession, and having a gradual and uniform reduction of costs and prices.

The Permanent Level of Prices.

Our regular readers are aware that we have at no time predicted an early return to the pre-war level of prices. When the January slump was on, and the prevalent talk was that grain, provisions, cotton goods and other commodities were headed for lower prices, we expressed the opinion that food prices would advance again when the task of feeding Europe was begun, and that with food prices on a high level, wages would have to stay there, costs would remain up and that radical price reductions could not be made.

We are not prepared, however, to accept the doctrine that the present price-level is a permanent one. It must not be forgotten that many features of the present situation are abnormal. It is not to be supposed that the present state of turmoil will always exist in Europe or that Russia, Rumania and Hungary have ceased forever to export foodstuffs. Industry has not been resumed in Europe; a large percentage of the population is idle or engaged in simply getting ready for regular production. They are waiting for repairs to be made and for raw materials to be had. Sooner or later these people will be producing for the market, and when they do the prices of many goods will fall. When Europe becomes more nearly self-supporting in food stuffs, agricultural products will come down, and since the cost of these and other necessaries are the basis of all industrial costs the effects will be widespread. Making full allowance for all other influences which will tend to maintain high costs, we do not believe that farm products will stay at war prices permanently, or that all other prices will stay up when farm products have declined.

If this view is correct, then while it is a mistake on the one hand to be lacking in courage to go ahead with the business of supplying current needs, it is not a time to welcome a boom upon expanded credits. This credit inflation which prevails over the world will not be reduced at once, but the tendency will be to a reduction. The efforts being made everywhere to increase wages and reduce working hours will have an influence against price-reductions, but the tendency will be for prices to work lower, and it will be safer and better to have them gradually do so. There are many unadjusted equities in these new relations, many forgotten and overlooked individuals who have been passed by in the new readjustments of pay. At least a partial return to the old status will help to equalize conditions, while an expansion of credit and rise of prices beyond the war levels would inevitably lead to a disastrous reaction. The credit convulsions which have followed upon war-periods of expansion have not come at the close of the wars, but after the credit created during the war had been diverted to peace-time speculation.

British Industry.

In England the national genius for compromise and practical adjustment has triumphed in the grave crisis presented by the demands of the triple alliance, composed of miners, railway employes and freight handlers. A strike by these organizations would have paralyzed business of all kinds. The terms of the settlement, especially with the miners, are viewed with much misgiving, as to the effects upon the other industries and the export trade, but it was conceded to be better to try operations under large concessions than to have a suspension. The results, whatever they may be, will tell their own story and be more conclusive than the arguments of either side. It is conceded that living conditions in some of the mining districts have been such as ought not to exist anywhere, and now it is likely that a more careful study of the situation will be made than ever has been made heretofore, with a view to reconciling the rightful demands of the miners for a decent living with the needs of all British industry for cheap power.

The miners appear, from this distance, to have fared best in the settlement, obtaining not only a two shillings per day wage increase with the war advances made permanent, but an agreement for a 7-hour day after July next, and a tentative promise, subject to trade conditions, of a reduction to 6 hours on July 1, 1920. The freight handlers got a 44-hour week without reduction of pay, and the railway employes got the 8-hour day with the war wages made permanent. According to American standards railway wages were very low before the war and the advances, although greater relatively than here, do not bring them up to American pay. The *London Times* states that the average pay of all railway employes before the war was about £70, or $350, per year, and will now be about £170, or $850, per year. The average in the United States is now about $1,500 per year.

Recommendations of National Conference.

In addition to arranging for the settlement with the three great unions, the National Industrial Conference which met upon the invitation of the Government in February, set up a Provisional Joint Committee, comprising 30 representative employers and 30 representative trade unionists, to consider the whole subject of hours, wages, unemployment, and co-operation between employers and wage-earners. This committee has submitted a unanimous report, the recommendations of which are summarized by the *London Times* as follows:

Hours.—The legislative establishment of a maximum normal working week of 48 hours for all employed persons, subject to variation in either direction by agreement confirmed by an Order of the Government.

Wages.—The establishment by law of minimum time-rates of wages of universal applicability, the rates to be fixed by a joint commission appointed under the Minimum Wage Statute.

The extension and speeding-up of trade boards. The continuance for a further six months from May 21 of the Wages (Temporary Regulation) Act. An inquiry by the Interim Court of Arbitration under that Act into the future treatment of war advances, including the 12½ per cent. bonus.

Unemployment.—Systematic short-time workers to be organized by industrial councils or other joint representative bodies. Restriction of overtime in periods of depression. Adjustment of Government and municipal contracts to fluctuating labor demands. Immediate execution of a comprehensive housing programme. State development of affores-

tation and other new industries. More adequate provision for maintenance during unemployment and under-employment. ,

National Industrial Council.—The creation of a permanent council of 400 members, elected in equal numbers by organized employers and work-people, with a standing Committee of 50 members, to supplement and co-ordinate existing machinery for dealing with industrial questions and to be recognized by the Government as the official consultative authority on industrial relations."

The Prime Minister, Lloyd-George has indicated the willingness of the government to accept this program, so far as the government's co-operation is required.

Other Wage Increases.

Wage increases have been general, and in other industries wages appear to be nearer the American standard. At the annual meeting of shareholders of the British Gas-Light Company, last month, the Chairman said:

"The other anxiety is the future cost of labor. In October last gas workers were granted an advance of 3s. 6d. per week, and in February a further advance of 5s., which was in addition to a previous bonus of 12½ per cent. The average wage of a stoker at Hull in March, 1914, was £2 4s. 4d. per week; at the present moment it is £4 4s. 5d., or at the rate of £219 9s. 8d. per annum."

The public utilities there, as in the United States, are all asking permission to charge higher rates in order to meet their expenses. The railways are running behind at the rate of $500,000,000 per year. A bill is pending in Parliament for the creation of a Ministry of Ways and Communications to take over the railways, canals and highways.

The situation in the steel industry is indicated by the following clipping from the *London Times*, in which British prices are converted into American money at $5 to the pound sterling:

BIRMINGHAM, April 3.—Civil trade is slowly returning, but it is retarded by existing conditions. An advance of 10 per cent. on puddling and forge and mill wages will take effect as from Monday next. Producers, who are not yet at liberty to fix their own prices, contend that the present maxima are insufficient to cover this new liability. They maintain that the recent concession of $7.20 per ton on selling prices has been absorbed in the extra cost entailed in working the eight-hour shift system. The bar mills are busy at the $100 basis for marked bars, and $88.60 for second-class bars. Steel is plentiful, but the competition has not brought prices down below the maximum permitted. Further increases in the price of pig iron are believed to be imminent. It is stated that an advance of $6.60 per ton has been sanctioned on forge and foundry grades, to take effect from May 1, when the subsidies are to be withdrawn, but makers regard this as inadequate and are claiming an addition of $10. The advance of $2.64 per ton in cold blast pig iron brings the price up to $52. The sheet mills are a little better employed, but pending an improvement in the export trade no marked expansion of business is probable. Galvanized sheets are quoted $140 to $145.

These prices are much above current prices in the United States, and if they are maintained it is difficult to see how British iron and steel products can be sold in outside markets.

Revolutionary Price Changes.

These wage increases together with reduction of hours of labor amount to a revolution in industrial conditions in England. Proprietors are accepting them because the demands for them are so general and imperative that refusal would mean social anarchy, and they feel that there is nothing to do but consent to a trial and demonstration. Then, too, all classes learned something during the war about the possibility of increasing production. They have obtained a clearer grasp than they ever had before of the great principle, which has been demonstrated in the leading works of England and this country, that it is not the wage-rate per day or per week that counts, but the rate per unit of product. They hope to obtain a higher efficiency than ever was realized in the past.

Whether the workers generally recognize the relation of increased production to their own welfare, and how the real value of the concessions they have won depends upon it, remains to be seen. Many of the leaders do, but it is too much to expect of all the workers, and therein is the weakness of the movement.

The arguments all carry the idea that the concessions are to be gained at the expense of the employers, but the wage advances during the war were far beyond what could be absorbed by the profits of employers. They were passed on to consumers so rapidly that it was difficult to tell whether wages or prices were advancing most rapidly. Labor leaders have generally insisted that the wage advances were no more than compensatory for the higher cost of living, and in many lines of industry unquestionably this was true. But if this has been the case in the past, what reason is there to expect that these new wage increases and shortened hours will improve the condition of the workers? The situation becomes in reality a struggle between the groups in various industries to see which will get the most at the expense of the others. Not that this is the purpose or understanding of the contestants. They all make a general demand on society, or aim their declarations at the well-to-do or employing class.

A Plausible Appeal.

As an example of the claims made by every group in its own behalf, the following declaration in behalf of the cotton-growers is taken from an article recently published in advocacy of the proposed restriction of the cotton crop:

Those who believe that the price of cotton is going to return to the old levels have the conventional view of the privileged classes of the world whose concept of life has been utterly condemned and placed beyond the pale by the moral judgment of mankind. A feeling still lingers with many of this class that they are of the elect, and are, therefore, entitled to some advantage over ordinary human beings in the race of life. Hence it is not strange that they should fail to read aright the signs of the times and to realize that, even in this

free country of ours, the divine rights of the great mass of mankind have been reclaimed by the new epoch from the realm of mere academics and made a practical and potential factor in the every-day life of the world.

Better homes, better clothes, better food and more leisure for wholesome recreation mean a higher scale of living for the cotton laborer, for which the consuming world will have to pay in the future. It will take prices well above any that prevailed before the war to do this. Should the consuming world refuse to pay the price of this living for any considerable time, then in a few years the supply of cotton will be reduced to a dangerous minimum. For the cotton laborer in the future will certainly abandon the cotton field before he will return to the slavery of the old days.

On the whole, this change in living conditions can be said to be wholly constructive and in accordance with the formulas of eternal justice. For it is clear that as the cotton laborer answered the call of his country to help make the world safe for democracy, his country is due him such a living as will make his democracy safe for the world.

We do not print this with the intention of taking exception either to the aspirations which it voices or the policy of restricting the cotton crop. If the cotton farmers can get more for their labor by growing other products, that of course is what they should do. We only call attention to the fact that this argument is in almost the same language as those that are offered in favor of raising the pay of milk producers, coal miners, railway employes, cotton mill operatives, garment makers, freight handlers, and every group of workers all the way round the circle of industries.

Each group seems to make a case that standing by itself is convincing, but starting with raw cotton and following it along over the railways and through the cotton mills and garment shops, and adding all the increases that are asked until the cotton goods are sold to the consumer, we are forced to recognize at last that the great body of consumers consists of the working people whose condition it is everywhere desirable to improve. In other words, the additions to the pay of the workers are made at the expense of the workers as consumers, and when all industries have had corresponding increases, their relative positions will be practically what they were before.

Advantages of Some Industries Over Others.

Of course in the actual struggle some will be more successful than others, but not because they are more deserving. There are industries which hold a more commanding position than others, by reason of being able to act more suddenly and with a greater degree of co-operation. The railroad employes are an example of this. By reason of their ability to suddenly stop all commerce, shut off fuel and food supplies, and bring community life to a standstill, they have an advantage over the workers of other groups. Their work is not harder or more essential than that of the farmer, but by their ability to act in concert they have greater power to fix the compensation which all the rest of the community shall pay them. The increase of pay which has been allotted to railway men in the last two years is perhaps no more than enough to compensate for the increased cost of farm products, but when the latter go down will the farmer get a corresponding reduction in the charges of railway service?

We make no suggestion that any group of workers is more grasping than others, and do not think so. We are only pointing out that the prevailing movement over the world to raise wages and shorten the work-day, all in the name of a new order of society, is a very superficial and fruitless movement, if that is all there is of it. If they are setting up these higher wages and shorter work days as new standards to be achieved by more harmonious and efficient methods of production, well and good, but unless production is correspondingly increased, there will be confusion, disorganization, friction, loss of enterprise and efficiency, and general disappointment.

The Service of Capital.

Of course what is aimed at in this general uprush of wages is to absorb and distribute for immediate consumption the profits of capital. This is impossible so long as private enterprise is the mainspring of business, and if private enterprise was eliminated the loss by inertia and waste would be far greater than the gains. Moreover, the profits of business are what carry on development.

The great oversight of those who are critical of the existing order is in not recognizing that the profits of capital when turned back into industry redound to the benefit of labor. They increase the demand for labor, which is the surest guaranty of employment and rising wages, and they increase the supply of all goods on the market, which is the surest guaranty of better conditions for consumers. The wage-earners gain at both ends, for they constitute the great body of consumers.

An interesting story of business development was told in the announcement last month by Endicott, Johnson & Co., shoe manufacturers, that they are converting their partnership into a corporation, and establishing a profit-sharing arrangement for interesting their employes in the business. Mr. Endicott began his business career 45 years ago with a cash capital of $2,800. The firm of Endicott, Johnson & Co. was formed in 1895, Mr. Johnson having been superintendent of the shoe factory, and rising to that position from the bench. Five other employes were later taken into the firm. The corporation now organized is issuing preferred stock to the amount of $15,000,000 and common stock to the amount of $14,000,000, which about represents the value of the assets that have been accumulated in the business, beginning with $2,800. Here is an opportunity for critics to point to the iniquity of the capitalistic system, under which such accumulations are made. But

where are those accumulations? Of what do they consist? The report says that the new corporation will own plants at Endicott and Johnson City, New York, employing 12,000 persons, and making 75,000 pairs of shoes per day. It operates its own tanneries, and with one exception is not only the largest shoe-manufacturing company, but the largest tanning company in the world.

All of this has been accomplished in the face of the freest kind of competition, for there are shoe-making centers in all parts of the country. The shoe business is not one of assured profits; thousands of shoe-makers have failed during the career of this firm, and not another one has duplicated this record. Endicott, Johnson & Co. have not made their capital by charging higher prices than others, and the offer they are now making to their employes is an assurance that they have paid as good wages as anybody. By good management they have made money, and every increase in their capital has meant more people on their payrolls and more shoes going out to the market. The factories and tanneries which they are operating are not mere agencies for making private profits, they are part of the organization for supplying the wants of the community. Such establishments must be created by somebody to serve the public needs. If the government should take over the shoe business, it would have to make a similar investment and provide the capital either by taxation or by charging a profit on the shoes, and if industry generally was taken over of course there would be no private property to tax. Endicott, Johnson & Co. therefore have performed a necessary social function in manufacturing shoes and in charging a sufficient profit to provide the capital for the business. Their record carries the presumption that they have managed the task more skillfully than it would have been managed as a government industry. This capital had to be raised if the public was to have shoes by factory production, and how could the public have provided itself with shoes more advantageously? The fact is, that this capital was not accumulated at the expense of the public, but by means of the economies which this enterprising firm introduced into the process of making shoes.

Adopts Profit-Sharing.

Now the firm is making a change in the business. The announcement reads as follows:

"To our Workers: Due to our mutual efforts, our leather and shoe business has grown from $600,000 to $75,000,000 annually, with possibilities for future development so great that we feel the business would be strengthened and the interests of all better guaranteed under the form of a corporation than a private ownership. Invested capital and management of this business is entitled to a fair return for its risk and efforts. Labor is entitled to fair wages, good working conditions, reasonable hours, and fair treatment. Accordingly we announce the following plan: Each year after the 7 per cent. dividend has been paid on the preferred stock, and 10 per cent. set apart on the common stock, the balance of profits, if any, shall be split 50-50 between the workers and the owners of the common stock. Every worker who has been in the employ of the company throughout the entire year will share and share alike, which means that the highest paid and lowest paid worker, and all between, receive the same amount either in common stock or cash at the option of the Directors. Divisions made once a year. Plan commences as of Jan. 1, 1919. First division as soon as possible after Jan. 1, 1920."

The statement, which was signed by H. B. Endicott and George F. Johnson, said further that employes would be permitted to buy preferred stock if they desired without affecting their share in the profits.

This plan should arouse a new interest among the employes in the business and cause them to give their best thought and efforts to achieve a yet greater success. That no doubt is the intention, and if it does not accomplish this it will be a failure, even from the standpoint of labor. Heretofore the surplus profits have been put back into the business, thus creating constantly a permanent demand for more labor and increasing the supply of shoes. Hereafter a part of those profits are to be taken out of the business and disbursed among 12,000 employes. It is now up to these employes to make such use of this disbursement, or render such additional service for it, as will keep up the accumulation of productive capital which has been going on under the old system. The benefits of these accumulations have been diffused throughout the community by the increasing demand for labor and increasing production of a useful article; hereafter the gains will be in larger degree concentrated upon the employes of this company.

Two Methods of Distribution.

There is much to be said from the standpoint of social justice in favor of the old distribution, putting all profits back into enlarging the business. The distribution, with all industry working upon the plan, is more general. Under this plan of dividing profits with employes, the individuals who are so fortunate as to work for Endicott, Johnson & Co. are favored above those who work for less progressive and less prosperous concerns, although the latter may work just as faithfully. As a matter of abstract justice there is no reason why an employe of Endicott, Johnson & Co. should get higher pay for doing the same work than an employe of another shoe factory which perhaps has no profits to divide. The plan therefore makes for inequality in the compensation of workers throughout industry, and for a concentrated distribution within organizations, instead of a broad distribution.

The justification for the plan, which is being widely adopted, is to be found in the ex-

pectation that it will promote contentment and good will and greater production in the establishments adopting it. The employes will see the results of their efforts coming to themselves, whereas they do not see or comprehend the broad distribution which takes place through the development of industry, and which carries the benefits of industrial progress to even the humblest, unorganized members of the community.

The case of Endicott, Johnson & Co., although one distinguished by unusual success, is typical of the capitalistic system so-called. The accumulation of capital in industry and the use of that capital in supplying the comforts of life to the population are therein displayed. The greater the profits are, the more rapid is the progress of industry and the greater the distribution of comforts throughout the community. It is the multiplied use of machine power, and the constant improvement of methods, with the scrapping of superseded equipment, which is the greatest agency for improving the condition of the people. Compare the Endicott-Johnson organization with its associated tanneries and up-to-date equipment, with the old shoe-maker who two generations ago went with his kit from house to house to make the family foot-wear!

Chilean Commission.

The United States is honored at this time by the presence of a Financial Commission representing the government of Chile, one of the most advanced and enterprising of the South American republics. The members of the Commission are the Hon. Elidoro Yanez, formerly Premier and now a member of the Senate; Hon. Juan Enrique Torcona, formerly Minister of Foreign Affairs, and Mr. Augusto Villaneuva, President of the Bank of Chile.

The Chilean Government is contemplating expenditures upon the state railways, for improvements, equipment, etc., of an estimated cost of about $30,000,000, to be covered by a foreign loan. It is estimated that about 60 per cent. of the loan will be expended for equipment and materials, probably in the country where the loan is effected, the remainder being required for direct disbursement for labor at home. Chile has prospered during the war, the nitrate and copper industries being greatly stimulated and the prices of all exports very much increased. At present the country is going through a period of reaction similar to that experienced elsewhere, but the resources of the country are such that its regular advancement is assured. The nitrates, which constitute one conspicuous source of wealth, are worth far more to the world to restore the land-values which have been diminished during the war than for high explosive shells, and there will probably be a phenomenal demand for them as soon as shipping conditions permit.

Communications between Chile and the United States are vastly improved by the Panama Canal, 18 days or less being sufficient now for the trip.

Position of Silver.

The Treasury statement of monetary circulation indicates that approximately 200,000,000 of silver dollars have been melted since the Pitman act inaugurating this policy went into effect about a year ago. This bullion has gone to India, and rendered a great service in meeting the trade balance which has existed in favor of that country, and in enabling the government there to supply the increased demands of the population for silver coin in circulation. The high prices of war time and the great demand for Indian products increased the trade balance, and the high prices and internal trade activity also increased the requirements for money in circulation. The British campaign in Mesapotamia, carried on mainly with Indian troops, also made a demand for silver rupees which have entered into circulation in that region. The rupee is reaching a wide circulation outside of India. It has been for years in use on the East Coast of Africa and has lately been made a legal tender in Egypt.

This expanding demand drew down the rupee reserves of the Indian government in the early part of 1918 until the situation was serious. The amount of paper rupees in circulation was increased, but paper money has never been popular in the interior districts, and the attempt to force the circulation placed the notes at a discount. At this point the Pitman act was passed authorizing the Secretary of the Treasury to dispose of silver dollars held in the Treasury reserves up to 350,000,000 at $1.00 per ounce, a corresponding amount of silver certificates to be withdrawn from circulation and replaced with Federal reserve notes of small denominations. This made available a stock of silver bullion which could have been procured nowhere else, and relieved the Indian situation.

The action practically fixed the price of silver at a minimum of $1.00 per ounce, and the Treasury later fixed the price of bar silver at $1.01½ and took the entire export trade under control. The production of silver in the United States last year was about 70,000,000 ounces, and imports, mainly from Mexico and Canada 52,000,000 ounces. The Government restricted the consumption of silverware manufacturers to 75 per cent. of the normal business, but in fact their business fell to about 40 per cent. of normal. In the early part of the year considerable silver went to China but was resold to India, where the demand was insatiable.

The Indian demand has lessened perceptibly since the armistice was signed, for several reasons. Victory in the war has had an effect upon hoarding, business activity has slackened, and exports have fallen off. Crops are not so good this year and the government has put an

embargo upon exports of wheat. Referring to the silver crisis of last year, Sir James Meston, the Indian Minister of Finance, has said recently:

"We are on permanently unsafe ground until the country abandons the habit of hoarding money in unsettled times. The Government cannot possibly continue meeting the insane demand for silver rupees without seriously affecting the world price of silver. During the last four years 1,200 millions of rupees have been drawn from the mints, and unless the hoarded coins are restored we may be forced to reconsider the whole basis of the currency exchange policy."

While the urgent demand for silver is over, importations will have to continue in large amounts, particularly if shipments of gold to India, which were large before the war, are not resumed. As gold will be in strong demand elsewhere, it seems probable that the burden of settlement with India will remain upon silver.

Whether this government will continue to dispose of silver dollars up to the full amount fixed by the Pitman act, so long as the price of silver remains above $1.00 per ounce, has not been stated. There is no reason why it should not do so. The Federal Reserve notes are as satisfactory as silver certificates in circulation, and the silver dollars were dead capital in the Treasury vaults. Moreover, as the Pitman act contemplates that the Secretary of the Treasury shall replace the silver dollars whenever silver bullion can be purchased at $1.00 per ounce, the melting of dollars creates a deferred demand for silver at that price which will stabilize the market until the meltings are made good. It would seem to be good policy therefore to dispose of the full $350,000,000 if the market will take that amount at the price.

The production of silver in this country is mainly as a by-product from copper and lead ores, and as the demand for these metals has fallen off the production of silver has declined also. The production of the world in 1913 was about 224,000,000 ounces and last year probably about 180,000,000 ounces. The production of Mexico may be increased, but that of Canada has latterly been declining. On the whole the outlook for the silver producers is more encouraging than for many years. The price can hardly fall below $1.00 per ounce for a good many years, and there is a fair probability that with a removal of control it may go higher.

The Economic Position of France.

No nation has appreciated more than our own the tremendous sacrifices of France in the war. Without counting the cost, she threw all her human and material resources into the conflict. No nation has had so heavy a burden to bear during the entire course of history, and no nation has won such imperishable glory.

France is now facing the great and inevitable problems of reconstruction. With her enormous war deficit rendered more burdensome by the forced unproductiveness, during a considerable period to come, of her devastated regions, with the need of importing great quantities of raw materials to supply her factories and permit a resumption of her industrial life, with great sums owing to England, the United States and other countries, which have made it necessary for her to restrict her imports, with exchange rates heavily against her, with the necessity of increasing largely her internal taxation, with the need of increasing in great measure her agricultural production in order to diminish her imports of foodstuffs, the leaders of France are engaged, with an energy and courage characteristic of the race, in bringing forward proposals for a solution of these momentous problems. Monsieur Klotz, the minister of finance, recently proposed an increased tax on capital and capital-earnings, but the sentiment in France was so unanimous that any considerable increase in this kind of taxation would result in discouraging capital and hence would defeat its own ends, that the proposal was quickly dropped.

It is realized in France, that although that country will be the largest beneficiary of the indemnity to be paid by Germany, this will be insufficient to solve her heavy financial problems. It is urged that new methods of financing must be resorted to. Monsieur Raoul Peret, head of the budget committee, has recommended an inter-allied loan, either issuing a French loan which will be taken up under the auspices of the Governments of allied and friendly nations and placed in their respective countries; or else the issue of a general inter-allied loan, to be guaranteed jointly by all the Entente powers. M. Peret has not yet entered into the working details of either of his proposals. We do not understand that he contemplates a redistribution of the debt for ultimate payment, but that the allied nations shall help support the credit of France until she accomplishes an economic recovery.

France's Foreign Investments.

The war has changed France from a creditor to a debtor nation, at least so far as present income is concerned. At the outbreak of the war, the loans of France to foreign governments and to industrial enterprises outside of France were $8,000,000,000. A very large proportion of this was loaned to Russia, Turkey, Bulgaria, etc., and is yielding no revenue to France today. On the other hand from August 1, 1914, to March 31, 1919, the French government voted credits of $34,300,000,000 for military and civil purposes. Today France is obliged to raise not less than $3,500,000,000 to pay her annual expenses. The total estimated debt of France is roughly $40,000,000,000 or about $1,000 per capita, and the

estimated total wealth of France is somewhat less than $1,500 per capita.

France has two pressing needs: The importation of raw materials and the importation of machinery. These must be brought into the country at once in order to permit her industries to resume their earning capacity. There is also need for a rapid rehabilitation of her carriers, both railroads and canals, as well as the restoration of an effective merchant marine. In a word France is faced with the urgent need of national production on a large scale as the solution of her financial and industrial situation.

From 1914 to 1919 there was a deficit in railroad earnings of $800,000,000 for which the government, by the terms of a contract, is obliged to reimburse the railroads.

The eight-hour day has recently been adopted by law in France and this will tend, especially during the period of readjustment, to a diminished production of service in some fields.

In 1913 the exports of France amounted to 81% of her imports. In 1918 the exports were 20% of the imports, that is imports of about $4,000,000,000 for 1918 against exports of about $800,000,000. It should be said that the rise in prices is an important factor in these figures.

The great textile centres of northern France, such as Lille, Tourcoing, Roubaix, were stripped of their machinery by the Germans, and the equipment in other branches, throughout the devastated region, was carried away or destroyed. Part of the German indemnity will probably be paid in machinery.

How France May be Aided.

All allied and friendly nations wish to aid France in solving her problems. England recently sent an important commercial mission to France, which included representatives of the Federation of British Industries, who held conferences with important French mercantile and manufacturing bodies. This British Federation has 17,000 members, representing the chief industries of the United Kingdom and many billions of pounds sterling of invested capital, and enjoys the co-operation of the English Government. The questions taken up concerned especially the part which England could play not only in reconstructing the devastated regions of northern and eastern France, but in combining with the industrial leaders of France for joint action in foreign trade.

The French import restrictions were a heavy blow to English commerce, as well as to our own, and protests have been made. These restrictions will only be maintained until means of making payment for purchases are found, because France must import machinery and raw materials to make her own industries yield profits. England has declined for the time being to increase her credits to France, but this action probably is only temporary. The English manufacturers talk of granting French buyers, on direct commercial transactions, terms of a year and a half or two years. Enlightened opinion in France is opposed to the method of alternately imposing and abolishing restrictions on imports, because of the inevitable unsettlement in industry which must follow.

United States and France.

The United States is in a position to aid France in several important respects. First, capital, both by the action of the government and by the action of individual groups. The proceeds of these loans would be delivered in merchandise. The United States is in a position to supply France with the machinery which she will require immediately for her devastated provinces, as well as machinery for the development of her productive capacity generally, and especially as regards her water powers.

The United States is also in a position to aid France by increasing her imports of those goods in which France is unequaled by any other country, such as fine gowns, laces, hats, and those objects of taste known as articles de Paris.

We cannot expect to send our raw materials and machinery to France without creating the means for their payment by in turn taking the products which France is in a position to send us. In this way only can exchange be stabilized so as to permit the normal flow of merchandise between the two countries.

Mr. Melville E. Stone, General Manager of the Associated Press, who has returned recently from France, stated the case succinctly when he said:

"I have read a good deal of criticism in the United States over the action of France in declining to import American machinery and certain other products. They cannot do it now. It would ruin their exchanges. The cost of living would go up so high that they could not stand it. The only hope, the one solution for the condition of France, lies in long-time credit by American manufacturers."

The Bond Market.

During the first week of the month bond prices receded slightly and Liberty Bonds were traded in large volume. The second week evidenced a broader market with steady prices.

Upon the announcement of the terms of the Victory Loan the bond market registered a general advance and trading continued active until the opening of the Loan campaign on the 21st.

There have been very few general offerings, and the trading therefore has been confined to the seasoned issues, many of which have been selling on an attractive basis. The most noteworthy offering was $200,000,000 War Finance Corporation 5% Gold Notes due April 1, 1920

at par. The War Finance Corporation was created by an Act of Congress approved April 5, 1918, the United States Government being the sole stockholder and the Secretary of the Treasury, Chairman. It was created to provide further for national defense and security and for the purpose of assisting in the prosecution of the war, to provide credits for industries and enterprises in the United States necessary or contributory to the prosecution of the war, and for other purposes. The $200,000,000 bonds were offered through the Federal Reserve Banks and their sub-agent banks throughout the United States, and the bond houses reported substantial subscriptions.

The municipal market has been very active and dealers in general report a good demand for tax exempt issues. Many large issues met with a prompt subscription and prices have held fairly steady. In view of the large amount of municipal work planned throughout the country we will no doubt see an increasing volume of municipal offerings for some time to come. The State of Pennsylvania is contemplating a $50,000,000 road issue, which is of particular interest, as this state has not offered its securities for sale for many years past. Michigan is also contemplating a $50,000,000 issue for road purposes.

It is reported that there has been a large buying of Liberty bonds by institutions, corporations, and particularly insurance companies, the latter being allowed to carry these bonds at par.

Foreign government issues have been comparatively inactive, but prices during the month recovered somewhat from the figures reached following the disturbance in the foreign exchange situation. In this connection it is interesting to note the formation of the Foreign Bond and Share Corporation, which was recently organized to finance public and private enterprises in Central and South America, the Far East, Europe and other parts of the world. It is understood that this company will sell to American investors either debentures of the Corporation secured by the deposit of securities of foreign companies or will dispose of the foreign securities themselves. This corporation has a subscribed capital and surplus of $3,000,000 and the organizers include a number of banks and private bankers throughout the United States. This apparently is the first American investment trust, and its plan of operation is modeled somewhat along the lines of the European trusts which have been in operation for some years past in Scotland, England, Belgium and Switzerland.

The most important general offerings during the month included:

$2,285,000 Buffalo, Rochester & Pittsburgh Ry. 4½% Bonds, due May 1, 1957, at 87¾ and interest, yielding 5.25%.

500,000 Lebanon Valley Iron & Steel Co. 6% Bonds, due March 1, 1939, at 97 and interest, yielding over 6.25%.

1,000,000 Ludlum Steel Co., Watervliet, N. Y., 7% Notes, due 1920-1929 at prices to yield 6.50% to 7.50%.

500,000 Middle West Utilities Company 7% Notes, due March 1, 1924, at 97 and interest, yielding nearly 7¾%.

2,500,000 Oklahoma Gas & Electric Company 7% Notes, due April 1, 1920, at 99½ and interest, yielding over 7.50%.

1,500,000 Standard Gas & Electric Company 6% Bonds, due December 1, 1926, at 96 and interest, yielding about 6.60%.

1,200,000 Trumbull Public Service Co. 7% Notes, due November 1, 1921, at 98¼ and interest, yielding 7¾%.

Municipal and government offerings included:

$1,500,000 Allegheny County, Pa., 4½% Bonds on a 4.40% basis.

1,700,000 Bethlehem, Pa., Water Works 4½% Bonds on a 4.40% basis.

600,000 Buncombe County, North Carolina, 5% Bonds on a 5% basis.

303,000 Flint, Michigan, 5% Bonds on a 4.70% basis.

205,000 Flint Union School District, Mich., 5% Bonds on a 4.75% basis.

235,000 Great Falls, Montana, Sewer 5¼% Bonds on a 4.85% basis.

500,000 Mt. Iron, Minn., School District 6% Bonds on a 5¼% basis.

500,000 Nashville, Tenn., 5% Bonds on a 4.80% basis.

10,000,000 Philippine Government 4% Notes on a 4.50% basis.

1,134,000 Pittsburgh, Pa., Funding 4½% Bonds on a 4.35% basis.

500,000 Port of Seattle, Washington, 5% Bonds on a 5% basis.

1,000,000 Salt Lake City, Utah, Improvement 5% Bonds on a 4.70% basis.

750,000 Salt Lake County, Utah, Road 5% Bonds on a 4.80% basis.

3,000,000 Saskatchewan 5% Debentures on a 5.30% basis.

215,000 Sioux City, Iowa, School District 5% Bonds on a 4.70% basis.

868,000 State of South Dakota 5% Bonds on a 4.70% basis.

500,000 Toledo School District, Ohio, 5% Bonds on a 4.70% basis.

500,000 Toledo School District, Ohio, 5¼% Bonds on a 4.75% basis.

1,250,000 Twin Falls County, Idaho, 5½% Bonds on a 5.20% basis.

200,000,000 War Finance Corporation 5% Bonds on a 5% basis.

300,000 West Allis, Wisconsin, School 5% Bonds on a 4.75% basis.

The combined average of forty active issues, as reported by the Wall Street Journal on April 29 was 84.43, which compares with 85.04 for March 29 and 83.61 for April 29, 1918.

National City Bank in Cuba.

Two new branches of this Bank have been opened during the past month, to-wit, at Guantanamo and Manzanillo, and another branch in the city of Havana will be opened in a few days. The latter will make seven branches opened on the island since January 1st last with a total of ten in the island.

THE NATIONAL CITY BANK OF NEW YORK

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, JUNE, 1919.

European Industrial Situation.

MR. VANDERLIP, President of this Bank, returned about the middle of last month from Europe, after an absence of four months, during which he visited England, France, Switzerland, Italy, Spain, Belgium and Holland, meeting the political and industrial leaders, principal bankers and other important people in these countries. His conclusions have been given to the public through interviews and addresses more completely than they can be through this medium, but summarized they are to the effect that the most serious feature of the economic situation is not the destruction of wealth which took place during the war, but the disorganization and paralysis of industry which has resulted.

The expenditures upon the war, the destruction of property, the loss and waste of production, the inheritance of debt—these of themselves would make up a terrible total to be faced, but if pre-war conditions were otherwise unchanged, and every worker remaining was able and willing to step back into the place he occupied before the war, and resume his duties as before, the situation would be comparatively simple and easy. Six months after the signing of the armistice industrial reorganization scarcely has begun. The armies are partially demobilized, but great numbers of people are receiving unemployment doles. The expenditures of the Governments are on a great scale and except in England are being met largely by issues of paper money. The currencies are depreciated and in some countries in a state of hopeless confusion. The transportation service is broken down, the old channels of trade are obliterated, industrial organizations are scattered, raw materials are not at hand, credit is in a state of suspension. Finally, the whole social body is in a state of unrest and disorder, unwilling to go back to old conditions and unable to provide a new system of industry to take the place of the old. The result is that production, which under any system of society is necessary to life and order, is largely suspended, and the situation from week to week grows more serious.

Interest has centered upon the Peace Conference, each of the allied countries hoping for a settlement which would be of assistance in meeting their immediate needs. But Germany will be in need of assistance to get her own industrial life going, and all Europe requires aid to put her industries into position to exchange goods with each other and the outside world. The people are agitated and distracted by their immediate wants, their sufferings, and the insidious and demoralizing social doctrines which are preached on every hand. The situation must be treated as a whole, to the end that the industries of every country may be re-started, and the people made self-supporting. Help must be given from outside, and mainly by America, because no other country can supply the necessary materials and equipment upon the scale required. We must supply them upon long credit, arranging to cover the payments to sellers by the distribution of investment securities in this market.

This situation is to be regarded as an emergency which involves not only the fate of millions, who must be fed or they will starve, but of civilization itself. The gift of food is but a temporary expedient; relief is not accomplished until the helpless peoples are put in the way of providing for themselves. Work is as necessary as a means to right thinking and to social reconstruction as it is to production. If Europe is to go down in anarchy the rest of the world is likely to be engulfed.

The situation is also to be regarded as an opportunity to do the greatest service which one people ever have rendered to their fellowmen. Every humane consideration pleads for it. Moreover, it does not require succor that is beyond our resources or beyond our surplus. Our crops this year are much beyond our own requirements for consumption. Such raw materials as cotton, lumber, copper, steel and iron can be produced in this country far in excess of any home demand that is in prospect for the next year, and that is true of such equipment and machinery as Europe may want. Our own labor will be more fully employed and confidence in our own pro-

gress will be supported by a liberal policy toward Europe. The effect will be at once to safeguard our own social institutions and to promote the general welfare.

Concrete propositions are under consideration, and something on a scale adequate for the requirements will, it is expected, be presented soon after the Peace treaty is out of the way.

General Business Conditions.

The symptoms of business improvement which were visible in April became more pronounced in May, and at the beginning of June the doubt and pessimism which prevailed in mid-winter about general trade and industrial conditions has mainly disappeared. Nobody is any longer apprehensive of a sudden and heavy slump of merchandise prices, for it has been demonstrated that in most staple lines of goods of direct consumption the demand exceeds the supply. The reports of clearing houses and Federal reserve banks show that the volume of payments through the banks is greater than a year ago or at any previous time. Reports from the industrial centers indicate that the demand for labor is increasing, and that there is more talk about a prospective labor shortage than of unemployment. In all agricultural districts, but particularly in the South, there is a demand for men on the farms.

The prices of foodstuffs are now above the level of a year ago or of last year, and this fact is generally accepted as establishing existing wage scales for the present. If reports are correct as to the low production in prospect this year in eastern Europe and the demand for food which will be made upon America throughout the year to come, there is small chance for a lowering of prices. This is the strong factor in the price and wage situation in the United States.

Crop Prospects.

The outlook for a great crop and the assurance that it will bring high prices, is the chief factor in the optimism which evidently pervades the country. The cities which are most intimately related to the great agricultural districts see a great trade assured to them for the coming year, and this influence is giving confidence in all lines of business.

The crop season has been backward, with much rain and cold weather, but this has been favorable to winter wheat, which with the greatest acreage on record also shows a condition unsurpassed. The spring wheat acreage is lower than it would have been with more favorable weather for seeding, but the outlook now is for a total wheat yield of about 1,250,000,000 bushels. Soil conditions are favorable to all crops, and with seasonable weather from now on the yield in all lines may be up to any past record.

Reports upon cotton prospects are more pessimistic than for the grains, as the acreage is reduced, the plant late, the fields grassy, labor scarce and the boll-weevil already reported much in evidence, but it remains to be said that the stand is good and the soil conditions better in the southwest than for several years. Texas probably will grow a million bales more than last year. The general situation of the crop, however, together with the improved market for goods has resulted in advance in raw cotton of about 12 cents per pound in the last two months. The curtailment of production in cotton goods and the curtailment of acreage in cotton production both turn out to have been unfortunate, but the curtailment of acreage has been made up in some degree since the price started upward.

Recovery in Textile Goods.

Clothing and all textile goods and raw materials are in great demand and short supply. Dealers instead of being afraid of overstocks have become afraid that there will not be enough goods to go around and have been scrambling over each other to place their orders, with the result that the mills are in an assured position for the next six months at least. The labor situation has been stabilized upon the basis of 48 hours per week, instead of 54, with a wage increase of 15 per cent., which compensates the wage-worker for the loss of time. This reduction of hours in the workday will reduce production and increase costs, unless there is recourse to double shifts, a matter which is under consideration and will be tried out. The total increase of wages in the cotton mills since the beginning of the war is above 100 per cent.

Construction Work.

There is a great gain in house-building operations, indicating that the influence of high costs has been largely overcome. There is some revival in iron and steel and prices are firm. Producers believe that consumption will be resumed at the present level of costs when the public becomes convinced that the new level in steel is in harmony with the new level in everything else. Unfortunately, the steel business is largely dependent upon the railways, and the latter are suspended between heaven and earth, with their expenditures restricted to the lowest possible scale. The great crop in prospect, however, will provide a vast amount of traffic, and tax the facilities of the roads to their capacity.

Foreign Trade and Exchange.

The figures for our foreign trade in April show a balance in our favor exceeding even the unprecedented record of January. Exports were $714,573,428 against imports of $272,956,949. For the four months beginning with January, exports have aggregated $2,530,180,193 and imports $988,703,876, with a credit balance of $1,541,476,317. This situation clearly presents the problem of an unbalanced trade. How our foreign customers are to settle the balance is

our problem as well as theirs if we expect exports to continue. Excepting Spain and Switzerland European exchanges all show the dollar above par. The rate for francs is about 6.40 to the dollar and lira 8.40, par in each case being 5.18. The pound sterling is about $4.64½.

It must not be thought that foodstuffs comprise the larger part of these exports. For the month of April 1919, compared with April 1918, the classifications are as follows:

	1919	1918
Crude materials for use in manufacturing	$94,835,345	$52,474,140
Foodstuffs in crude condition and food animals	66,164,102	39,750,213
Foodstuffs partly or wholly manufactured	226,430,466	152,990,431
Manufactured for further use in manufacturing	73,763,482	85,144,906
Manufactured ready for consumption	217,914,173	158,766,058
Miscellaneous	1,015,631	708,768
Total dom. exports	$680,123,199	$489,834,516
Foreign merchandise exported	34,390,229	10,608,390
Total exports	$714,513,428	$500,442,906

The figures for ten months are:

Crude materials for use in manufacturing	$968,472,818	$752,147,611
Foodstuffs in crude condition and food animals	566,227,039	325,692,157
Foodstuffs partly or wholly manufactured	1,354,431,541	862,742,002
Manufactured for further use in manufacturing	794,710,979	1,016,201,269
Manufactured ready for consumption	1,884,486,101	1,840,576,064
Miscellaneous	14,373,696	23,403,467
Total	$5,582,702,174	$4,820,762,570
Foreign	119,234,272	64,224,611
Total	$5,701,936,446	$4,884,987,181

Banking Conditions.

The money market is easier, with time loans at 5¼ to 5¾ per cent and call loans at 4½ to 6 per cent. Outside money has been coming into this market, indicating relaxation elsewhere, although the condition of the Federal reserve banks does not show any material reduction of loans. Their total earning assets on May 29 were $2,402,056,000, against $2,370,019,000 on December 6, the high point of last year. The total earning assets of these banks on May 31, 1918, were $1,301,390,000. In the six months preceding the armistice they increased about $1,000,000,000, and have since remained with little change.

This is the season of the year when the smallest amount of credit is employed in carrying foodstuffs, and other agricultural products, and a considerable liquidation on this account must have occurred. On the other hand the amount of government obligations owned by the member banks is about $1,000,000,000 greater than in December, and the amount of bills secured by government obligations held by the reserve banks is also greater. Indeed, it is important to note that the loans of the reserve banks upon other security than government paper are becoming negligible. They are less than a year ago, notwithstanding the great increase in all loans. The comparison is as follows:

	May 29, 1919	May 31, 1918
Bills discounted: Secured by Government war obligations	$1,802,893,000	$562,993,000
All other	186,499,000	334,364,000
Bills bought in open market	183,650,000	256,373,000
Total bills on hand	$2,173,042,000	$1,153,730,000

It will be seen that eliminating bills bought in the open market the reserve banks are not getting many commercial bills, although the Federal reserve system is founded in theory on commercial bills. The explanation of course is in the preferential rate given to loans on government securities. The commercial rate is so little used as to be ineffective as a market influence, and the preferential rate is so low as to furnish no restraint upon expansion.

Loans Should be Kept Down.

We have repeatedly given warning that the danger of financial reaction was not to be apprehended during the war, or as a result of the credit expansion for the war operations, but from speculative and industrial expansion after the war. While the war was on, the requirements of the Government put a restraint upon private credit except as it was used in forwarding Government operations and had Government support behind it, but with this restraint removed there is the possibility of inflation over and beyond that already occasioned by the war. The time for watchfulness and caution, and for safe-guarding our credit resources is now.

As a first proposition let it be said that any further expansion of credit beyond the great volume created to drive the country's industries at war pressure is unnecessary and undesirable. It was not absolutely necessary even for war purposes; we could have gotten along with a smaller use of credit if we had been more resolute in the curtailment of private consumption, but in view of the world situation a large degree of inflation was unavoidable. It has caused a great rise of wages and prices which does nobody any good except as it does other people harm, or in other words as it takes from one to give to another. Thousands of persons who are so situated that they cannot readily have their incomes increased to correspond with the general rise, are suffering injustice, and they are not, as a class, the rich people. That the painfully acquired savings

of millions of people shall be permanently depreciated, perhaps one-half, is something not to be accepted without thought or objection.

Now that the war is over this movement should not go farther. It is highly desirable that at least a start should be made toward deflation, for none but the most superficial observers can think that this wholesale depreciation of money values signifies real progress. There are, however, grave difficulties about a rapid process of deflation; they are so grave that rapidity is impracticable. The war was financed in part by an expansion of credit, as truly as though greenbacks had been printed for the purpose. The banks loaned credit to the people with which to buy the Government's obligations, and that credit went into circulation as purchasing power, and is still in circulation. Its use had the same effect upon wages and prices as paper issues would have had: the increase in available purchasing power being greater than the increase of goods or labor supply, prices and wages were forced up to a higher level.

If this new supply of credit was in the form of circulating notes it would be more generally understood that the only way to get back to former levels was by retiring the paper money, paying off the new issues and burning them. This would mean that the surplus earnings of the people were paying for the war in the same sense as though the war had been financed originally by self-denial. And so the only way the present inflated state of bank credit and inflated state of prices can be reduced is by having bank loans paid off and the credit retired.

Deflation Desirable, but at Present Impracticable.

It is evident that a drastic policy of loan reduction would interfere with the normal readjustment of industry and business. The Cunliffe Committee in England, appointed by the Government, reported that the scientific method of controlling the exchanges was by means of the discount rate, but the Government shrinks from applying that remedy. It prefers to compromise with the situation rather than raise the discount rate upon all borrowing at this time. We give a portion of the discussion by the Chancellor of the Exchequer in another place.

We are in the same position. The logical course for reducing this credit expansion and lowering the present price-level is by raising interest rates. This would set in motion forces which would reverse the process by which prices were rasied. Men would pay their debts, and contract their operations, and effective purchasing power would be reduced. The Federal reserve authorities evidently hesitate to adopt this policy, and we are not prepared to say that the time for doing so has come. For one thing the reserve banks have encouraged borrowing for the purpose of buying the Liberty and Victory bonds, and may well feel that the public is entitled to have time to work off these loans at the present interest rate. Furthermore it would be undesirable to have a reduction of loans which meant a forced curtailment of business. The country certainly can make good the losses of war more rapidly with its industries running than with them shut down; it is fundamental that production must be kept going. But after saying this it may be well added that the credit situation should be kept in hand. If there is any slack in the credit situation it ought to be taken up and conserved for the real needs of the country, and not absorbed wastefully or in mere speculation.

Demands on the Money Market.

The prospective demands upon the money market are large. The Secretary of the Treasury has stated that there will not be another general loan campaign, but as the Treasury must continue to borrow largely this means that he will be looking to the banks. Business is now reviving and prices have recovered from the decline which followed upon the armistice. An unprecedented amount of bank credit will be required to handle the year's crops, and finally, if this country is to respond to the duty to which it is called in world affairs it must supply a large amount of credit for that purpose.

In the presence of these impending demands cheap money is not to be expected, and any relaxation must be temporary. The country seems to have passed over the danger of general business prostration, and certainly this is true if we make the sales abroad which for every reason we ought to make. Under present conditions cheap money would be an anomaly anywhere, signifying that the country where that situation existed was not related to world affairs.

On the other hand, it should be possible to meet these demands without a further expansion of credit, and we believe that the banking authorities of the country should direct their policy to that end. It is inconceivable that these requirements, great as they may be, should exceed those of the war time, when every ounce of man-power and machine power was in active use. It was the efforts to drive the country beyond its industrial capacity which caused the present inflated situation. Therefore, it should be possible, without undesirable repression of business activities, to prevent a further expansion of loans. Every real need can be covered by the credit which is released from Government use.

Furthermore if there is any natural relaxation in the credit situation the slack should be devoted to a reduction of the re-discounts of the Federal reserve banks. These banks, although in a strong

position as compared with the central banks of Europe, are extended much beyond what should be considered their normal position, and that after mobilizing quite effectively the country's stock of gold.

Keep Speculation in Check.

The bankers of the country should recognize that the present state of credit expansion is abnormal and not to be accepted as permanent. The circulating credit which is afloat against government war securities in the banks is pure inflation. It belongs to the war financing, and it ought to be eliminated from the peace situation as soon as possible. The longer it remains a factor in the situation the more difficult it will be to eliminate it, and to go on from this level to a still higher degree of inflation, will weaken the position of the country and invite a disastrous reaction. Because the nations of Europe are helpless to avoid it is all the more reason why we should keep our own foundations sure. With this great crop to be sold at high prices, and with the abundant trade which is in prospect for the coming fall season, there should be surplus earnings and profits enough to accomplish a substantial amount of debt reduction without imposing serious restrictions upon enterprise, and the bankers should make it their policy to achieve this result. If the recovery of commodity prices and general state of prosperity this year is made the basis of more indebtedness, through land speculation and stock speculation, it may prove in the end to have been unfortunate that we did not have more drastic liquidation this year.

In view of the unsettled state of industry and social affairs the world over, the revival of industry must receive first consideration, but we repeat that this does not require that the present state of inflation should be accepted as permanent. The present cost of food-stuffs is the main influence in making the present general price-level and is the chief obstacle to a general decline. If European importations of food should fall to the pre-war volume the situation in this country would be materially affected, and a general readjustment would naturally be made.

Victory Loan.

Subscriptions to the Victory Liberty Loan amounted to $5,249,908,300, an over-subscription of $749,908,300. Every district but two oversubscribed its quota. Nearly 60% of the Loan or $2,663,154,850 was taken by those who subscribed for not in excess of $10,000 each. Subscriptions by districts, after allowing for allocation of credit from one district to another, were as follows:

District	Quota	Subscriptions	Percent.
New York....	$1,350,000,000	$1,762,684,900	130.57
Chicago	652,500,000	772,046,550	118.32
Boston	375,000,000	425,159,950	113.38
Philadelphia ..	375,000,000	422,756,100	112.73
Minneapolis ..	157,500,000	176,114,850	111.82
Cleveland	450,000,000	496,750,650	110.39
St. Louis......	195,000,000	210,431,950	107.91
Richmond	210,000,000	225,146,850	107.21
San Francisco	301,500,000	319,120,800	105.84
Kansas City..	195,000,000	197,989,100	101.53
Atlanta	144,000,000	143,062,050	99.34
Dallas	94,500,000	87,504,250	92.60
Treasury	....	11,140,300	.....
Grand Total..	$4,500,000,000	$5,249,908,300	116.66

Subscriptions up to $50,000 have been allotted in full; above that from 80 per cent. to 42.39 per cent.

The estimated number of subscribers to the Victory Liberty Loan was approximately 12,000,000.

Although not as great as for several of the previous issues, the showing is a satisfactory one. In this connection it should be said, that the experience of the New York district with the coupon books in three loans is very instructive. The amount of coupon books sold in the last campaign was approximately $50,000,000, slightly more than in either of the previous campaigns, and for the three loans the total was about $140,000,000. Evidently the subscribers to a great extent were the same people, so that the experience affords a successful demonstration of bond selling on the installment plan. The number of defaults was about 6 per cent.

The Railroad Problem.

The President's statement in his message to Congress that the railroads will be returned to their owners at the end of the present calendar year makes the solution of the railroad problem an immediate and imperative necessity.

Federal control dates from December 28, 1917. As compensation for the Government's use of the properties, the railroad companies were assured a rental equivalent to the average net operating income for the three years ended June 30, 1917. This rental, aggregating something over $900,000,000 was accepted as fair for the railroads as a whole, being the average of two good years and one very poor year—1915. Due to war conditions the Federal Railroad Administration was compelled to advance freight and passenger rates radically in the attempt to compensate for the rapidly rising cost of labor and materials. Principally as a result of such increased rates, total operating revenues increased no less than $865,000,000 over the year preceding. Due to increased operating expenses of nearly one and a quarter billions, the net operating income for the year fell short of the three-year average (the so-called standard return) by $236,000,000. Thus, during the first year of Federal control the railroads earned only 75% of the amount of the guaranteed rental.

Director General Hines has just appealed to Congress for the appropriation of a further sum of $1,200,000,000 to be added to the "Revolving Fund," the original appropriation of $500,000,000 having been exhausted several months ago. Mr.

Hines states that $250,000,000 is needed to meet the deficit incurred by the Government under its guaranty for the first four months of 1919, indicating that the loss is running at the rate of over $2,000,000 a day, and has already exceeded the loss for the entire year 1918. From these figures it appears that the roads are now earning only 16% of their standard return. It should not, however, be forgotten that earnings are always lowest during the winter months and it is reasonable to expect an improvement when the crops begin to move. Freight traffic, while less than in the first quarter of 1918, is 6% heavier than in the same months of 1916, but net earnings are nearly 80% less, proving that it is not so much the falling off in business as it is the increased costs of conducting the business that are responsible for this unfortunate showing.

All Operating Costs Higher.

Even if there had been no advance whatever in wages the operating expenses of the American railroads would have increased well over $500,000,000 as a consequence of enhanced cost of coal, rails and other materials. The advance in wages since our entry into the European war amounts to no less than $1,260,000,000. The wage bill now aggregates three billions—a figure slightly in excess of the gross earnings of all the roads in 1915. The number of employees in January, 1919, was 139,846 more than in December, 1917, although handling a smaller volume of business. In fairness to the Railroad Administration it should be admitted that the eight-hour day and the loss of skilled men to the army may account for a considerable percentage of this increase. At the same time it is a fact that a rapid increase in the number of employees has always been observed in countries passing from private to public operation.

The interest charges and dividend payments of the railways average nearly $65,000,000 a month. As the net earnings in the first three months of 1919 were less than $40,000,000, it is clear that the industry, considered as a whole, would be bankrupt were it not for the protection afforded by the governmental guaranties. Even if an improvement in earnings is recorded in the latter half of 1919 it hardly seems possible that it will be sufficient to make the railroads self-sustaining; therefore, unless Congress, in the meantime, enacts thorough-going protective measures the return of the railroads to their owners next December cannot be accomplished without a financial disaster of the first magnitude. That the market prices of railroad securities have recently been advancing can be attributed to the confidence of the financial community in the fairness of the measures likely to be adopted.

The restoration of the earning power of the railroads is of pressing importance, and a further increase in rates, much as it is to be deplored, appears inevitable. Outstanding railway securities must be safeguarded because they lie at the heart of the credit structure of the country and injury to them would react unfavorably on all business. New capital required for the expansion of the railway plant will not be inclined to venture into the field unless the capital already fixed there is given what investors would consider a square deal. Therefore, if private capital is to continue to furnish transportation facilities the legislation that Congress should adopt must aim to make that field inviting.

Plans Submitted for Solution of Problem.

Some fifty distinct plans dealing with this two-fold problem have been laid before the Senate Committee on Interstate Commerce. The plans which have attracted the most attention have been those proposed by the Interstate Commerce Commission, Director General Hines, the Association of Railway Executives, which represents about 92% of trackage of the country, the National Association of Owners of Railroad Securities, (the Warfield Plan), representing many billions of bonds and stocks, and the plan proposed by Mr. Plumb, counsel for the Railway Brotherhoods. In all these plans there are some important points on which minds are in substantial agreement. Only the Railway Brotherhoods advocate government ownership. Senator Cummins, the new Chairman of the Committee on Interstate Commerce, formerly an advocate of government ownership, now believes that the people of the country will get better transportation and at a less cost through private operation than through government operation. But private operation must be conducted under the strictest control. As the regulatory machinery has not been altogether satisfactory in the past, it is now freely recognized that there must be a reorganization of such machinery. The divided authority as between State and Federal bodies has often been a matter of genuine grievance to the railways and since railroad traffic is overwhelmingly interstate in character the paramount authority should unquestionably reside with the Interstate Commerce Commission. It is not proposed to put the State commissions out of business but rather to bring them into harmony with Federal authority and to this end the establishment of regional commissions has been suggested. The Interstate Commerce Commission has been a very much overworked body and it has necessarily occupied anomalous positions. A separation of its judicial from its executive functions seems in the line of progress. Its authority in the past has been almost without limit and it is now proposed to make it more directly responsible for the consequences of its decisions.

Federal control is responsible for the disfavor with which regional railway monopolies are regarded. The shipper is looking forward to a restoration of competition in service.

The Problem of Attracting Capital.

But it is generally agreed that a perfecting of the machinery of regulation is not enough to restore railroad credit sufficiently to attract new capital in the volume that the business of the country demands. It is on the question of the proper incentive that thought radically diverges. Senator Cummins believes that the return upon the capital invested in railways should be made certain through a government undertaking. In this view he is in accord with Director General Hines and Mr. Victor Morawetz. Opposed to a government guaranty are the plans of the Railway Executives, the Security Owners Association, the Interstate Commerce Commission, Hon. Paul M. Warburg and many others. Senator Cummins advocates a guaranty because he believes that a saving of at least $250,000,000 per annum can be attained by reducing the capital charge. He says, "Assuming but not conceding that the railways are worth 17 billions of dollars, a return of 4½% under a government guaranty would be ample."

There are, however, grave objections to the guaranty plan. One of them has been set forth with force by ex-Senator Root in these words: ". . . The same observation applies to the idea of a government guaranty. That means an attempt to assure a given income independently of rates instead of assuring rates subject to a limit of income. The inevitable result would be that no rates would be permitted beyond those necessary to make the guaranty good, and as the government must make the guaranty good there would be neither opportunity nor incentive for private enterprise in the management or development of railroads. The only real financial interest and the only active control stimulated by interest would be on the part of the government and this would lead inevitably to government ownership." Public sentiment is clearly opposed to government ownership and it would be regrettable if a plan were adopted which would lead the country unwittingly into it.

Fallacy of Cheap Government Credit.

Another weighty objection to the use of a guaranty has been well stated by Mr. Warburg: "It has been argued that through the use of the Government's credit, railroads would procure the necessary funds at a lower rate of interest. As against that, we must remember that the excessive use of the Government's credit tends to increase the rate at which a Government borrows. With us it would not only affect the rate of the Government Bonds to be issued in refinancing the outstanding railroad securities, estimated at $17,000,000,000, but it would add to the rate to be paid by our Government when some of our Liberty Loans in due course will mature and come up for renewal. Moreover, the incessant use of Government bonds, in order to finance the annual requirements for future railroad development and improvements, would have a disastrous effect upon the price and standing of our Government securities. Granting, however, that some economy could be secured by substituting the Government's borrowing power for that of the railroads, it would be insignificant when compared with the increase in cost of operation and the waste and inefficiency that inevitably would follow Government operation."

When we speak of the railroad problem what is chiefly meant is the restoration of railroad credit to the extent of enabling the railroads to raise the capital required to keep pace with the growth of the country. It is commonly believed that a billion dollars a year ought to be so invested. Clearly, for the Government to guarantee railroad securities is not to restore railroad credit. It is merely to substitute public for private credit.

Leading bankers have announced their opposition to the guaranty idea. They believe that the railroads can raise the needed capital without the use of such a dangerous agency, provided that the rates authorized by regulating bodies are not kept down to a starvation level. Between 1905 and 1910 new money was flowing freely into railway enterprises and investors were eager to take partnership risks. During those six years the roads of the United States, considered as a system, earned an average of 5⅜% on their property investment. Only in the post panic year of 1908 did the return fall below 5%. After 1910 regulation became much more repressive and the results show in the figures. Between 1911 and 1915 the roads earned an average of only 4½% on their property investment and the return exceeded 5% in but a single year. Partnership in railway enterprises has in consequence been unattractive and excessive borrowing has necessarily followed. To assume that the patient cannot recover without a surgical operation when the history of the case merely indicates under-nutrition is doubtful diagnosis.

Rate Making.

But what shall constitute the measure of a "reasonable rate?" The Railway Executives suggest that the statute itself should provide the rule of rate making and should require that rates should not only be reasonable but adequate and sufficient to enable the carriers to provide safe and sufficient service, to protect existing investment and to attract new capital.

The Association of Owners of Railroad Securities proposes a more definite rule for rate making. The Interstate Commerce Commission is to be instructed by act of Congress that in the adjustment of railroad rates, such rates,

as nearly as may be, shall produce not less than 6% on the aggregate property investment of the railroads grouped in each of the classification territories. No guaranty to a particular road is contemplated. No road would necessarily realize as much as 6% on its property investment account. The amount which it would earn would depend entirely upon its competing actively for business and as a result of efficient methods of operation. This plan has the endorsement of Mr. Elihu Root. In his language "it makes the railroads work for their living and assures them of a chance to earn it. The guaranty plan gives them their living whether they work for it or not. That is fatal to enterprise and to efficiency."

Senator Underwood introduced a bill in the closing hours of the last Congress embodying the principles of the Warfield Plan for rate making, while Senator Watson brought in a bill by the terms of which the Interstate Commerce Commission would be instructed to establish rates yielding 6½% on the property investment account.

Consolidations.

Not twenty years ago strong railway systems were absorbing smaller weaker lines so rapidly that public opinion became alarmed and steps were taken to check the movement. To-day it is everywhere agreed that the country would be better served by fewer systems. The Interstate Commerce Commission reports that there are 186 roads having total operating revenues of over one million dollars a year. Very many of these roads, to be sure, are subsidiaries of the larger lines. Senator Cummins is advocating that all the roads of the country shall be brought together into some 18 great systems so laid out as to be strongly competitive. Such compulsory consolidations would do away with the problem of the strong and the weak road, which now is a stumbling block to fair rate making. To increase rates so that the weak roads, which carry 25% of the country's business, will be self-sustaining, will give an excessive return to the strong roads which do 75% of the business. The Warfield Plan which contemplates a return of the roads to their owners with unchanged identities, meets this difficulty by proposing that the Government shall take for its own purposes in the furtherance of transportation, two-thirds of the excess of returns above 6% on the property investment, one-third remaining to the carrier as an incentive to efficiency.

Compulsory consolidations involve wholesale disturbance of existing securities, a strong argument against the plan. Congress should permit consolidations where the public interest is clearly benefited thereby, but more durable satisfaction would probably result when such mergers are slowly developed from the action of economic laws, instead of arising from the hasty work of a few experts commissioned to redraw the railway map of the United States.

The Future.

An optimistic view of the future of the railways seems justified. Discussion of the many phases of the problem is helping to crystallize thought as to the evils to be eliminated and the aims to be sought. Public opinion, unquestionably, is anxious to see the roads restored to their owners in full compliance with the promise contained in the President's Proclamation of December 26, 1917: "Investors in railway securities may rest assured that their rights and interests will be as scrupulously looked after by the Government as they could be by the Directors of the several railway systems."

The Bond Market.

Although the Victory Loan Campaign had reached its peak during the first week of May the general bond market was unusually active and strong with advances in practically all classes of bonds. The most encouraging feature, in view of the Victory Loan drive, was the advance in Liberty 4¼s, the Fourth Loan reaching 94.40 against 93.12 the week previous, which in round figures represented an increase of more than $100,000,000 in the value of the outstanding Fourth Loan. Foreign Government bonds were firm with Anglo-French 5s the favorite. Low priced rails were active, St. Louis-San Francisco Prior Liens and Missouri Pacific 4s advancing from two to three points, but they are still about 10% below the prices of two years ago. A block of $1,000,000 St. Louis-San Francisco Prior Lien 5s were reported to have changed hands at 75, which is an advance of one point above quotations ruling a week previous. Securities of railroads operating in the southwestern part of the United States were particular favorites on account of the oil development in the territory served. Industrial bonds were also in demand.

With the successful termination of the Victory Loan during the second week general bond prices continued to advance, with public utilities taking the lead. Liberty bonds declined fractionally as the result no doubt of investors disposing of the earlier issues in order to subscribe more liberally to the Victory Loan. Foreign Governments were firm and industrials advanced slightly. Rails operating in the oil country continued their advance and oil bonds were particularly buoyant, some of the issues registering an advance of more than fifty points from the low prices of the year.

Rising Prices.

These conditions and a broadening market continued during the third week, with traction issues and rails as the outstanding features. A wide buying of New York tractions was in evidence and the expectation that Congress would devise

a plan for returning railroad properties to private control encouraged general buying of the higher grade rails. Savings banks were reported as large buyers of "legals" and Liberties. In connection with Liberty issues it is interesting to note that the War Finance Corporation in its 1918 report shows purchases of about $378,000,000 Liberties and sales of about $273,000,000.

The close of the month recorded higher prices in practically all classes of securities and the general bond market experienced the most wholesome improvement during any week since November, 1914. Bankers reported a heavy demand for all classs of high grade issues from private investors and institutions. "Over the counter" business seemed to indicate that speculators who had taken profits out of the stock market during the past month were investing in bonds. Rails, industrials and public utilities continued to advance. Midvale Steel 5s reached 89⅝, several large blocks changing hands. The Liberty issues were very active, the Fourth 4¼s leading in volume. Several of the larger savings institutions were reported as buyers of Liberties in blocks running into six figures, these orders being stimulated no doubt by the large over-subscription to the Victory Loan. Victory Loan subscriptions reported by the Secretary of the Treasury reached $5,249,908,300, and as a result allotments of subscriptions over $50,000 were cut from 20% to 57.6%. The Loan was traded on the Stock Exchange for the first time on May 27 at prices ranging from 99.88 to 99.96, total sales for the first day reaching almost $1,500,000. In spite of the unsettled conditions in foreign exchange, foreign government loans continued steady.

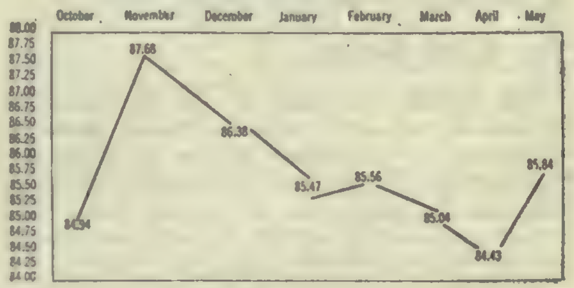
Municipal Bonds.

Municipal bonds have advanced steadily since the close of the Victory Loan and the demand on the Street seems to indicate that dealers are not only absorbing new issues at advancing prices but are competing for round blocks which have not found permanent lodgment in the security boxes of the large buyers who suffered cuts in their Victory Loan allotments. An indication of the strength of municipal bonds is evidenced by an offering of $2,500,000 Cleveland 5% Serials on a 4.50% basis as against offerings of Clevelands prior to the Victory Loan Campaign on a 4.70% basis. This is an advance of over four points on a thirty-year bond. On April 1 ten large blocks of standard municipals were offered at an average price to yield 4.70%; toward the close of May these same issues were quoted at an average price of 4.45%. New York State and City bonds have also advanced, the City issues being quoted on a 4.37% to a 4.40% basis. Buffalo and Westchester County have recently sold issues which are offered on a 4.25% basis.

Distribution of New Issues.

New offerings of all classes were promptly absorbed throughout the month and in many cases substantial advances above the offering prices were reported. The larger bond dealers are paying particular attention to distribution and as a result the new issues have not been sold within two or three hours after the public offering but the selling campaigns have been carried over a period of several days, with the result that the bonds are widely distributed among investors and institutions throughout the country and prices have accordingly advanced. Earlier in the year there was considerable criticism directed against the larger houses of original issue as the result of new issues declining on the Curb shortly after large over-subscriptions had been announced. Evidently a careful study of the situation has been made by the issuing houses in an attempt to keep new issues out of the hands of speculators and dealers who do not purchase for resale to their clients but who merely take a chance on market quotations.

Range of Market Since the Armistice.



	Average Price.	
October 1918	84.94	Before Armistice.
November.......	87.68	After Armistice.
December.......	86.38	Wide variety of issues—investment demand broadened.
January 1919....	85.47	Less active than previous month but large volume of business.
February	85.56	Steady contraction of business—prices firm.
March	85.04	Substantial volume of business—average prices slightly lower at end than at beginning of month—Approach of Fifth Loan responsible for small decline.
April...........	84.43	Liberty Loan during latter part of month probably responsible for lower prices.
May	85.84	

It is interesting to trace the general course of the bond market since the signing of the armistice in November. Forty selected issues, as reported by the *Wall Street Journal* were selling in October at 84.94. Immediately upon the signing of the armistice prices continued to advance until they reached a peak of 87.68 in November. This advance of almost three points was due largely

to competition among the various bond dealers in an endeavor to pick up attractive blocks for resale. In December the general investment demand broadened and the trading extended to a wider variety of issues, with prices declining to 86.38. January was less active, but the volume of business was substantial, with prices declining to 85.47. In February the volume of business declined, but prices advanced to 85.56. March was an active month but the average price declined toward the close of the month to 85.04 in anticipation of the Victory Loan. April experienced a decline to 84.43, although a good general business was reported by bond dealers up to the very opening of the Victory Loan Campaign. After the amount of the Victory Loan was announced as $4,500,000,000, and its success was practically assured during the early days of the campaign, a demand for general securities became evident and prices continued to advance throughout the month until an average of 85.84 was reached.

The combined average of forty active issues, as reported by the Wall Street Journal May 28 was 85.95, which compares with 84.39 for April 28 and 84.48 for May 28, 1918.

The British Budget.

The British Chancellor of the Exchequer on the last day of April presented to the House of Commons his statement of the revenues and expenditures for the fiscal year ended March 31 last, and the budget for the current year. The report is interesting and the proposals and accompanying discussion of taxation still more so.

Reckoning the pound sterling for convenience at $5, the total expenditures of the last fiscal year were $12,896,505,000, of which $4,445,105,000, or approximately one-third, were provided by taxation and the remainder by non-tax revenues and borrowing. Of the enormous sum produced by taxation about 80 per cent was raised by direct taxes upon wealth, including personal incomes and excess profits taxes, and 20 per cent by excise and customs duties. Inasmuch as the well-to-do classes pay a good share of the latter as well as all of the former, it is evident that so far as the laws can place the war burden it has been laid mainly upon the rich. Of course it would be a mistake to conclude that the class which is not assessed with direct taxes is unaffected by them. The consuming public, one way or another, contributes to all taxes. There is no way of helping that, and it would be much better if the fact was clearly understood by the many who are indifferent to the size of tax levies which do not strike them directly.

For the current year the Chancellor estimated expenditures at $7,174,550,000, and all revenues at $5,798,250,000, leaving $1,376,300,000, to be provided by borrowing. He proposed a reduction of the excess profits tax rate from 80 per cent to 40 per cent, an increase in the death taxes, an abandonment of so-called luxury taxes, an increase of taxes upon spirits and beer, and no change in the income taxes.

The public debt on March 31 last, was $37,175,000,000, of which $6,750,000,000 is owed abroad. Against the debt it has loans to allies and dominions, aggregating $8,695,000,000. Of these loans Russia owes $2,840,575,000; France, $2,172,450,000; Italy, $2,062,600,000; Belgium, $433,895,000; Serbia, $93,215,000 and other allies $239,575,000. The Chancellor says that neither the present year, nor the next, nor perhaps the one after, will be entirely normal in receipts and expenditures, but he hazards an estimate of $3,830,000,000 as the probable total of expenditures in the future normal year.

Imperial Preference.

The Chancellor, who is a son of the distinguished Joseph Chamberlain, the author many years since of the scheme of a customs preference within the British Empire, announced the inauguration, so far as budgets of the United Kingdom were concerned, of the policy. He stated that only three Colonial products at the present time imported in large quantities would be benefited by the new proposals, these being tea, cocoa and rum. The United Kingdom supply of these products already come mainly from the dominions, and are taxed, but the new rates represent a reduction of one-sixth, while competing products pay as before. Other colonial products which will enjoy a like preference are coffee, sugar, dried fruits, tobacco and motor spirit. The following will enjoy a preference of one-third: moving picture films, clocks and watches, motor-cars and cycles, musical instruments. These products are not at present manufactured on a large scale in the colonies. The Chancellor said upon this point:

> But though the beginnings may be small, the measure of what I am inviting the Committee to do is not the amount of British Imperial trade which secures preference at this moment, but the opportunities for the development of that trade which I invite the Committee to open out. There is room for a vast extension. There never was a time when it was more important to the Empire as a whole or to us in particular that that development should take place. From the small beginnings of to-day I hope that many members of this House will live to see a really wide structure of inter-Imperial trade develop.

It will be seen that the first essay in the preferential policy is made by sacrificing present revenues, thus adding nothing to the selling price of the commodities in the English market. It is no trivial matter to sacrifice revenues at this time, but it is less serious than to raise prices to consumers. The critical test will come when the policy is broadened to the extent of including some degree of the latter. The Liberal party, headed by Mr. Asquith, stands opposed to the whole plan, and the Labor party is opposed to any increase of food costs.

Currency Inflation.

The Chancellor touched upon the interesting subject of currency inflation, stating that the estimated amount of legal tender money in the country at the beginning of the war equalled $1,070,000,000, and now exceeds $2,700,000,000. He said that at the date of the armistice the amount of currency notes outstanding equalled $1,455,000,000, and on April 23 equalled $1,745,000,000, and said that obviously this expansion must not proceed indefinitely. He called attention to the fact that at no time had there been a forced circulation of the currency notes; that is to say, the British Government at no time has paid out paper money as a means of making purchases or payments. It has borrowed money at interest to supply all needed purchasing power, and the currency notes have been paid out into circulation only as business men have called upon their bankers for them. He points out that so long as business men want currency and have balances due them at their bankers, they have a right to call for the notes, and nothing would be gained by refusing them. The banking business cannot continue, and all business would be paralyzed unless depositors are paid money when they ask for it. The direct remedy for inflation is to raise interest rates and cause a liquidation of bank loans and deposits, but this means a curtailment of business along with a decline of prices, and the Chancellor thinks this is too drastic a policy for the present. He says upon this point:

> There is no reason why we should not, and there is every reason why we should, attack the underlying causes as quickly as possible. The first remedial measure is to reduce expenditure. (Cheers.) The second is to meet that expenditure as early and as fully as we can out of revenue. (Cheers.) The third is when we are obliged to borrow from real investors. The fourth is to repay Ways and Means advances. The fifth, and last, is to refund the immense volume of short-dated Treasury bills.
>
> Measures like this can be rendered practicable only by the strictest national and individual economy. (Cheers.) I should like the Committee to consider for the moment what is the position. The hard, inexorable, economic facts are obscured by a fictitious appearance of wealth. (Cheers.) There is between two and three times as much legal tender money in circulation as there was before the war. The deposits of the joint stock banks have more than doubled. The position of those banks, judged by every approved criterion of sound banking, is stronger than ever it was before. Almost the whole of their additional deposits are covered by the best of all banking assets, shortdated British Government securities. These securities standing behind the deposits and standing behind the legal currency represent to a large extent not existing wealth, but wealth consumed in the operations of war which it must be our business to replace out of the exertions of the present. Both are drafts on future labour and the future creation of wealth. Then there is an immense reservoir of artificial purchasing power, and therefore diminishing in effect with each new increase.

The Profits-Tax and Capital Levy.

The Chancellor gives two reasons for cutting the excess profits-tax in two: first, that where four-fifths of the profits are taken as taxes the tax-payer does not practice economy as closely as is desirable in the national interest; the nation is interested in having capital accumulations increase. Second, the high levy upon profits deters proprietors from new enterprises in which there are risks of loss. They will stick to established lines in which profits are small but reasonably certain, rather than venture against such odds. This policy is not in the public interest, as it represses enterprises and retards industrial progress. This view is sustained by practical experience everywhere. It is the hope of something above ordinary interest returns which induces men to go into untried enterprises, and they cannot afford to take the risks of loss if in the event of success the larger part of the profits are taken by taxation.

The Chancellor, although favoring higher death duties, is decidedly against the proposed levy upon capital, as distinguished from income. He does not favor a tax which would not only take all of a man's income, but reach down into capital. Upon this he says:

> If by a tax on capital is meant a small annual charge, then I think that that charge is as widely distributed and more fairly and conveniently raised in the shape of our income-tax. If, on the other hand, there is meant a large levy on capital, a large slice to be taken out of capital, then I beg the Committee to consider what the result might be. It is a bad time to propose such a tax when, for the past five years, you have been begging people to save, and when you are still obliged to ask them to save and to give you their savings. It is a bad time to tax those who have responded to your appeal by reducing their expenditure and making economies, and to let those go free who disregarded your instructions and who spent their money when it was not in the interest of the State, or in ways which were not in the interest of the State.
>
> Consider a levy on capital apart from the circumstances of the moment. The death duties make such a levy and they make it once in a lifetime, at a time when the taxpayer receives an accession of income, and since they are levied only at death, and we do not all die at the same time, the process of making the valuation and of levying the tax is a task of manageable proportions. It can be done justly and fairly as between man and man, and it can be done with a minimum of evasion or of fraud. Since only a portion of the capital of the country is dealt with in any one year, the tax is paid without any disturbance of credit, and without any depreciation of securities to the detriment either of the State itself or of the home. If a levy was to be made on all the capital of the country at one and the same time by the tax collector all these advantages would be lost. To make an efficient valuation, fair as between man and man, and fair as between the revenue and the State, would exceed the power of any revenue administration in the world, and I make bold to say that ours is the best way. It would exceed their power at any time, and still more now, when the staff is still depleted owing to the war, and when they are charged with the overwhelming new responsibilities which the war has brought. It would be open to all the objections which arose and all the difficulties to which the valuation of the whole land of the country and the taxation of the land of the country gave rise under the Land Values Duty, and open to those objections on a vaster scale, because you would have to value not only real but

personal property. Since very few people would have money lying idle sufficient to pay their obligations under the tax, it would mean an immense disturbance of capital. Every one would be seeking to sell securities of one sort or another, and where all are sellers who would be buyers, and who shall measure the loss to the country by the depreciation of all securities (cheers), and who shall measure the loss to the individual through the same cause?

Silver Market Free.

The United States Government has relinquished control over exports and prices of silver, with the result that there was a runaway market for a few days, with sales as high as \$1.19¾ per ounce, the highest in thirty years after which a decline occurred to \$1.06 with later recovery to \$1.10½.

The Treasury has completed the sales which it undertook to make to the British Government under the Pittman act, and does not at present contemplate further sales, although it may supply its own needs for subsidiary coinage by further melting of dollars. The demand for Asia has ceased for the moment, but purchases for Europe and South America have been taking current offerings. The course of silver depends upon India and China, especially the former. The Indian Treasury reserves at this time amount to about 25 per cent of the outstanding note circulation, and as the crop-moving season is now about over that government may abstain from purchases for a time. Indian crops for the last season have been short, and the trade balance is not so heavily in favor of the country as in previous years. Nevertheless, payments will have to be made to India, and it is a problem how they will be accomplished. Under the arrangement heretofore existing, the Indian Government has been supplying the Federal Reserve Bank of New York with rupee exchange at 35.73 cents to the rupee, which has been available to American merchants having to make remittances to that country. Now this fund is no longer available and as the Indian Government does not permit silver to be imported into India by private parties, and the United States Government does not allow gold to be exported from this country, the facilities for rupee remittances are very limited. Practically nothing is doing at present although a few have been made through London at about 40 cents.

Our need for rupee exchange is in payment for burlap, skins, tin, and other useful importations and the trade is entitled to some means of doing business, even though it takes gold.

International Labor Conferences.

The International Labor Conference, which was held at Paris as a subordinate body of the Peace Conference, formulated a program which does not appear to go very far beyond providing for the establishment of permanent headquarters in the same city with the League of Nations and the holding of an annual conference in some one of the countries belonging to the League. The first conference will be held in Washington in the fall of 1919. These conferences will discuss and propose measures to the governments of the countries represented, which the latter will be under obligations to refer to the proper legislative authority. The conference encountered difficulty here in the fact that in some countries, notably the United States, the authority dealing with international relations is not empowered to deal with all industrial subjects. In all cases, of course, the authority of the conference ends with a recommendation.

Efforts to establish any uniformity of industrial conditions throughout the world obviously must encounter very great obstacles, owing to the differences which exist in industrial development, etc. Progress is best made step by step in all countries. An attempt to bring the backward countries up abreast of the most advanced by general regulations would be impracticable, and the delegates from the United States gave notice that they would not consent to any agreement which would make the progress of labor in this country dependent upon what could be secured in other countries.

With these evident limitations upon international action, it remains to be said that international discussion and conferences upon subjects affecting the common relations and welfare are to be encouraged as calculated to reduce the causes of irritation and promote better understanding.

Labor's Complaint and Hope.

The report of the Labor Conference was presented to the Peace Conference by Mr. Barnes, one of the British delegates, and one of the ablest leaders of organized labor in the United Kingdom, who represents a Glasgow district in Parliament. In offering the report he made a preliminary statement in which he said:

First of all, I want to say that we approached our work, as I am sure you would have had us do, in a sympathetic spirit and from a humane standpoint. Some of us knew our labor world at first hand, and we knew that there were many in it condemned to lives of toil relieved only by spells of compulsory idleness. In the old times, before the war, labor conditions were largely the outcome of blind chance. Age and want, that ill-matched pair, haunted the mind of the average workman in his working life, and we must remember that the laborer still lives in pre-war memories and is determined not to return to pre-war conditions. Those pre-war experiences of labor have laid upon the world a heavy burden and a great danger. They have produced a man who is class-centred, who regards work as a blessing, and who has been deluded into the belief that the less work he does the more there is left for his mates to do. This feeling, and the practice based upon it, is demoralizing to the individual and harmful to the community, but it is based on the fear of want, and can be eradicated only by security of employment under improved conditions.

In saying that, I am not casting stones at any class for existing conditions—it has not been conscious of cruelty—but rather the long arm of circumstance that has cast a devil's chain around the lives of some workers in some countries. I do not deny that some may rise to share in the pleasure of life, but nevertheless, it is true to say that the mass remain a misfit in their present condition, a source of concern to all lovers of their kind and a menace to the peace of the world.

It is this last aspect of the matter which makes labor regulations and improvement an integral part of the work of a Peace Conference. The question we had, therefore, to consider was how to provide the means whereby to promote a better mental atmosphere, as well as to produce improved material conditions.

Hitherto, it has sometimes been found that efforts at improvement in a country have been checked by the fear, or the plea, of competition from other lower-wage countries. I do not enter into the question as to the validity of that plea, although in parenthesis it may here be said that the highest-wage countries are not the least successful in world competition. I merely mention it as a factor in sometimes preventing improvements in countries of a relatively high standard of life.

For the first time in history, we are now seeking to get the co-operation of all concerned. States, employers, and workers engaged in a common cause and animated by a common desire to raise the standard of life everywhere.

This statement of purposes will command universal sympathy and approval. All the constructive forces of society have the desire to co-operate for the ends herein set forth. There are few who will not admit that with all our industrial achievements there is a lack of conscious and co-ordinated effort to secure the highest social results. The natural laws of the business world are beneficent in their tendencies. They cannot be set aside, but it is certain that by intelligent co-operation with them great improvement in social conditions may be accomplished.

The speaker has pointed to one of the most serious misapprehensions with which society has to contend, to wit, the widespread belief that there is only a limited amount of work to be done, and that after it is done, unemployment follows. He recognizes the fallacy of it and the unfortunate results which flow from it. No one change would accomplish so much as that of substituting for this idea in the minds of all workers a picture of the exchange of goods and services which is taking place. When it is seen that all the groups in the industrial system are engaged in supplying each other with the necessaries and desirable things, it will be understood that if these goods are produced in proper proportions there cannot be too many of them, because human wants are unlimited. If each group produces abundantly what the other groups want there will be plenty and comfort for all, and in no other way can plenty be provided.

A Common Misapprehension.

The laboring people, however, are not the only ones who entertain and act upon this delusion. The newspapers are filled with the utterances of leaders in the business and political world which convey the idea that there is only a limited amount of work to be done and of trade to be had, and that if one nation is prosperous another will suffer in consequence. If men of affairs entertain this view they should not be surprised or impatient if laboring men, whose opportunity for observation is limited, draw a similar conclusion. The principle is the same throughout industry. In the long run each individual and each country will consume in proportion to its production.

There should be no serious difficulty about co-operation between the representatives of Labor and Capital when they can agree at the outset that all policies must be judged with a view to their effects upon production, for if they promote production they will also bring leisure, comfort and individual advancement to the workers. What is produced must be distributed to consumers, and there is no large market but that furnished by the body of the people.

The subject of unemployment is one that has not received the attention it deserves in modern society. The interest of the wage-worker in regular employment is in accord with the general interest, for when workers are idle there is a loss of wealth and trade to the community which affects all. It is a problem which challenges the ability of society to organize itself effectively. The direct loss of productive power which occurs when great numbers of workers are idle is of itself worth looking after, but when there is added the consideration which Mr. Barnes presents, of the mistaken ideas which are engendered, the matter becomes one of great fundamental importance. In these modern times of highly organized industry the cause of unemployment is usually beyond the individual's control, and therefore becomes a proper subject of public interest and policy.

It should be recognized that the primary object of organized society is to promote in the most effective manner the welfare of all its members. Public policies are to be judged by what they accomplish to this end, and private and personal rights are subject to the same test.

Labor's Share of the Product.

The present movement, abroad and in this country, to raise money wages is declared in resolute language to mean that Labor is determined to hold a more commanding position and to secure for itself a larger share of the product of industry than it has had in the past. The declaration is often made without any definite idea of what Labor's share of the product of industry has been.

There never was a time when there was so much sympathy with Labor's aspirations as

now, but in order to have the co-operation that is desired it will be necessary to dispose of several fundamental errors which appear everywhere in current discussion. One of these which we have frequently commented upon, is the assumption that all the profits of industry, including those re-invested for its development, are taken from Labor and applied exclusively to the benefit of the owners. The truth is that profits which are left in the business for its development, or taken out of one business and put into another, are undivided earnings. They remain in employment, as part of the means or equipment with which industry is carried on, and are rendering service not only to the owners and employers, but to Labor.

We referred last month to the case of Endicott, Johnson & Company, shoe manufacturers, who, beginning with small capital many years ago, have accumulated a property valued at approximately $30,000,000, employing 12,000 persons and making 75,000 pairs of shoes per day. The partners of this company have had for their private benefit what they have taken out of the business and no more. The buildings, machinery and working capital which are employed in the business are undivided assets, which although standing in the name of the company are rendering service not only to the owners but to the employes and the public. Without this organization and equipment—or other employing organizations equipped in like manner—the employes would find their earning powers reduced, and the public would find shoes more costly. It is an incomplete view of industry which charges up all profits to employers or owners, regardless of what is done with them. The real division of product takes place at the point of consumption. What share of all the products of industry are consumed by owners of capital and what share by the workers? Profits which are converted into capital have the effect of increasing the supply of products on the market in the future, and the distribution and consumption of these must be taken into the account. It is contrary to sound public policy to view income converted to capital in the same light as income consumed for personal support and gratification.

Capital as an Aid to Production.

It cannot be gainsayed either that capital is a great aid to labor in production, or that labor is the chief beneficiary of increasing production. The great feature of modern industry is the increasing investment of capital in every line of industry. Our census reports show that in 1899 the amount of capital employed in manufacturing within the United States amounted to $1,770 for each person employed, in 1904 it was $2,117, in 1909 it was $2,488 and in 1914 it was $2,848.

This increasing investment gives greater capacity in industry and results in either higher money wages or cheaper goods. It means that production is increasing faster than the number of workers and consumers, which must result in a larger per capita distribution. What justification then is there for assuming that income converted into capital is serviceable only to the owners?

We have given the subjoined table of census figures before, but the showing is pertinent to this discussion, and ought to be reprinted frequently. The figures show the percentage of increase in each of three five-year periods over the figures of the preceding census, for the principal figures collected upon manufacturing:

	Percentage of Increase		
	1904 over 1899	1909 over 1904	1914 over 1909
Capital employed	41.2	45.4	23.7
Primary horse-power	33.6	38.5	20.7
Wage-earners, average number	16.0	21.0	6.4
Total wage-payments	30.0	31.0	19.0
Value of products	29.7	39.7	17.3
Increase added by manufacture	30.3	35.7	15.8

The results for 1914 were undoubtedly affected by the slump in industry which occurred in five months of the year, after the outbreak of the war; nevertheless the table tells the story of the increasing part in production played by capital. It is an indispensable part. With increasing population there must be increasing efficiency in industry if the population is even to hold its own, to say nothing of improving its condition, and the most effective agency for increasing production is improved equipment.

The cost of transportation would be much higher than it is to-day but for the vast expenditures of capital in rebuilding and improving the railways in the last twenty years, and all industrial costs are lower than they might have been, for a like reason. Looking over the industrial situation it will not be easy to name investments which from the standpoint of the common consumer could have been spared.

Of course this is not denying that labor has been unjustly dealt with in many individual cases. This is undoubtedly true and injustice is always to be deplored, but it is not the whole story. The economic law has its own methods of righting wrongs and of bringing things back into balance. Earnings which are withheld from labor and converted into capital become means of production and as such confer benefits upon the entire body of workers. There is a natural relationship between the amount of new capital available for investment on the one hand and the progress of industry and general level of compensation to labor on the other hand. In short, there is a law of distribution which is automatic and inevitable in its operations.

It is true that capital saved and owned by the wage-workers would perform the same function, and it is highly desirable that the ownership of the industries shall be more widely distributed.

That, however, will naturally come about by the same evolutionary processes. As industry develops and the compensation of the wage-worker increases he comes surely into a more commanding position. The trend is bound to be in his favor if the productiveness of industry is increased.

Government Ownership and Management.

Another of the fundamental errors constantly encountered is the assumption that if the Government would take over certain functions now performed by private capital and private management, the public would gain thereby. This theory is probably not so prevalent in this country as it was before the war, but it is still a common declaration in labor platforms. The proposal assumes everything that is in dispute. There is no proof that any advantage to the public would be realized from having the Government take over the functions commonly urged upon it. On the contrary, so far as evidence of governmental operations is available it is usually against the presumption. Senator Cummins, who has never been accused of being a champion of past railroad management, is against government ownership, because, as he says, it costs the government more to do anything than it costs private parties to do it. This is true within the range of experience, and it is a sufficient reason against sweeping innovations of this kind.

Opposition to government ownership and management of industries, therefore, should not be considered as hostile to the interests of Labor. Government ownership and management will not be beneficent to Labor unless beneficial to the community as a whole. Nobody should be asked to take it on faith or on any other evidence than the results of cautious experiment. There are certain gains from highly centralized management, but there are offsets as well, and the experience this country has been having indicates that so far as government operations are concerned the estimates of the former have been exaggerated.

Money Wages.

Still another of the fundamental errors to be noted is that of assuming that the living conditions of the masses of the people can be improved by simply pushing up money wages and shortening hours of labor. It is possible that certain groups may improve their relative position in this way, making gains for themselves at the expense of other wage-earning groups, but such an accomplishment does not raise the general position of Labor. The workers in the iron and steel and textile industries have obtained wage-advances aggregating over 100 per cent since the beginning of the war, which is much more than the average advance in all the industries. The selling prices of steel and textile products have been advanced accordingly, and the workers in all the other industries are paying the bill.

The only gains that signify general benefits are those which represent an improvement in the standard of living for the masses of the people, giving more leisure and more of the comforts which they crave. These are gains for which society should unitedly strive, but wage advances alone do not bring them. Indeed, wage advances which simply put up prices on consumers are so disappointing that they result in embittering the wage-workers against the whole social order, because they feel that they have somehow been cheated out of what had been ostensibly conceded. If each line of industry will contrive to increase its production, thus having more to offer in the exchanges, it is evident that the workers in every line will have more for consumption.

The experience of industry during the war has shown that vast gains are possible simply by the full and well-organized employment of all the industrial forces. Scientific learning was mobilized for the assistance of industry more effectively than ever before, and permanent results will follow. Finally, the greatest influence for the improvement of industry and by this means for the improvement of social conditions will be found in more harmonious relations between employers and employes.

THE NATIONAL CITY BANK OF NEW YORK

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THE NATIONAL CITY COMPANY

Correspondent Offices in 50 Cities

THE NATIONAL CITY BANK OF NEW YORK

AND BRANCHES

CONDENSED STATEMENT — JUNE 1, 1919

ASSETS

Cash on hand, in Federal Reserve Bank and due from Banks and Bankers & United States Treas.	$221,042,125.52	
Acceptances of Other Banks	42,586,331.52	
United States Treas. Certificates	135,265,500.00	$398,893,957.04
United States Bonds	15,161,008.69	
Loans and Discounts	445,659,635.63	
Bonds and other Securities	37,845,204.92	498,665,849.24
Other Assets		35,917,704.91
		$933,477,511.19

LIABILITIES

Capital, Surplus and Undivided Profits	$ 78,229,333.29
Deposits	797,439,265.13
Circulation	1,438,595.00
Bills Payable and Foreign Bills of Exchange Sold	24,044,149.18
Acceptances, Cash Letters of Credit and Travellers' Checks	19,755,134.22
Other Liabilities	12,571,034.37
	$933,477,511.19

1812

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, JULY, 1919.

The National City Bank.

MR. F. A. VANDERLIP retired from the Presidency of this Bank on the 3rd of last month, after an incumbency of ten years, and an administration which will always be distinguished in the annals of the Bank. The period has been a notable one in the history of the country and for American banking, including as it has the great war, with its extraordinary demands upon the industries and credit resources of the country, the establishment of the Federal Reserve system and the inauguration of American branch banking abroad. Under his enterprising and public-spirited leadership the Bank during these great years has sought to play a part worthy of its position in the business community and of its own history.

Mr. Vanderlip was eleventh in line of Presidents, a line which had its beginning with the election, June 16, 1812, of Colonel Samuel Osgood, who had been a distinguished revolutionary soldier under General George Washington and served under President Washington as the first Postmaster-General of the United States. The "City Bank of New York" was organized under a state charter by Colonel Osgood and associates to succeed to the business of the New York branch of the first Bank of the United States, when the latter institution was forced into liquidation by the failure of Congress to renew its charter in 1811. The "City Bank of New York" did business under a state charter until the National Banking system was organized, when in order to cooperate fully with the Government at Washington it joined the national system, as the National City Bank of New York.

The Presidents of the institution from the first to the present incumbent have been as follows:

Samuel Osgood	1812-1813
William Few	1813-1817
Peter Stagg	1817-1825
Thomas L. Smith	1825-1827
Isaac Wright	1827-1832
Thomas Bloodgood	1832-1844
Gorham A. Worth	1844-1856
Moses Taylor	1856-1882
Percy R. Pyne	1882-1891
James Stillman	1891-1909
Frank A. Vanderlip	1909-1919
James A. Stillman	1919

Most of the men were leaders in the business life of New York, independent of their position as bankers. Moses Taylor, whose term covered almost the span of a generation, including the trying period of the Civil War, was one of the great figures of his time. The Bank has grown with the growth of the country and has consistently endeavored by every means in its power to promote the development and prosperity of the country. There will be no change in this purpose or in the policies for which the Bank is known.

Peace Treaty Signed.

The Treaty is signed. The terms were hard for Germany to accept, for the outcome is very different from that expected when the Kaiser's armies set out through Belgium for Paris. It was inevitable that the terms would be hard. Germany had no reason to expect that the Allies, having won a decisive victory, would make peace upon any other basis than that Germany was responsible for the war. No government in the Allied countries could have remained in power if it had not stood for severe terms. If they prove to be too severe for Germany to meet, and for the best interests of the Allied countries themselves, as many people dispassionately believe, they can and doubtless will, be modified. It will be wise policy for the people of Germany to accept the situation in sincerity, recognizing that their task is to reinstate themselves in the good opinion of the world. If they do this, as they have the ability to do, they will come back into the position in the family of nations which by reason of numbers, natural genius and ability to contribute to the common welfare they are entitled to hold.

The great need of Europe is to get to work. We can agree with the German Socialist organ, "Vorwarts," in its exclamation, "Work is what preserves the world; three cheers for work." Unfortunately this enthusi-

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asm for work does not animate the entire population. The orderly habits of the people have been broken up; the overthrow of governments, the interruption of industry, the scarcity of necessaries, the rise of prices, the disregard of life and property rights incidental to war, have been favorable to revolutionary agitation. The situation in Europe is full of difficulties and made infinitely worse by the attempts to overthrow the existing order of society. Everywhere there is suffering for the necessaries of life and it is of the first importance that production shall be resumed under the most capable leadership and most effective organization that can be had.

Now that the blockades are at an end and that individual enterprise is free to begin the work of reconstruction, it is probable that the worst is over and that order will gradually emerge from chaos.

The United States has the resources and industrial organization to play a great and useful part in restoring Europe to normal conditions, and the opportunity is one which should stimulate the keenest interest and highest constructive abilities of our people.

The Money Market.

The money market was disturbed during the past month by the payment of the second installment of income and excess profits taxes, which was due on the 16th, and by the usual preparations for dividend and interest payments in the middle of the year. The Treasury receipts for these taxes in June to the 26th were $961,-225,590.

The shifting of funds, including withdrawals of Treasury deposits, put the associated New York banks slightly below their legal reserves on the 14th, and sent call loans as high as 15 per cent. This flurry in call money has been given exaggerated importance, some persons referring to it as evidence that the New York money market was too unstable for an international fianancial center. No change occurred in the discount rates at the Federal Reserve banks and but slight changes in commercial rates at the member banks. Quotations for call money on the stock exchange are subject to fluctuations in the amount of money offered there from day to day. Millions are loaned there by individuals and corporations, as suits their convenience, much of it coming from other cities, including Canadian cities. It is loaned temporarily and borrowers understand this. When a demand arises for money all over the country, as there was in this instance for the tax-paying purposes, it is natural that these funds should be drawn upon, and that rates should be affected. The call money market is one for which nobody feels much responsibility. That is one of the conditions of the market. Borrowers trust themselves to the convenience of lenders, for the sake of getting money cheap most of the time, but occasionally it is not cheap. The New York banks are not under obligations to suddenly supply funds to take the place of all outside money that may be withdrawn.

Prevailing Inflation.

The general conditions of the money market have been known to everybody. There has been and now exists a great expansion of bank credit in this country. The banks were obliged to consent to it, as an unavoidable incident to financing the government during the war. Prices, wages and all the costs of doing business are so inflated now that it is difficult to reduce the volume of outstanding bank credit, although it ought to be reduced. Imperative demands for more credit are in sight. An enormous crop is to be financed and our export trade must be financed if it is to go on. A heavy fall trade is in prospect and the price level is rising. The banks are under obligations to the public to keep the further expansion of credit in check. The public has had notice of this from the Federal Reserve Board, the highest banking authority in the country, and should adapt its dealings and operations to this policy. The necessary, regular, trade of the country has been cared for, and will be amply cared for, but it is no time to increase the use of credit for other purposes. If bankers generally throughout the country cooperate with the Federal Reserve Board in this matter it will be for the general good.

Treasury Operations.

The disbursements of the Treasury are showing a welcome decline probably not reaching $800,000,000 for the month of June. The cash balance on hand on the 23rd of June was $1,435,-816,931, which will be considerably reduced by the redemption of Treasury certificates on July 1st. Total receipts upon the Victory notes to the 23rd were $3,465,552,646, leaving a little over $1,000,000,000 to come. Current disbursements will be met mainly by issues of Treasury certificates, of which two offerings are now open, maturing September 15th and December 15th. These are of the form receivable for taxes, and it will be observed that the maturities fall on the dates of payment for the third and fourth installments of income and excess profits taxes. Congress is showing a commendable effort to reduce appropriations, and with the rapid demobilization of the army it may be hoped that by the end of the year expenditures may be down to the point where they are covered by current receipts.

The Foreign Exchanges.

Exports for the month of May aggregated $606,382,799, a falling off of $108,130,629 from the figures of April, while imports were $328,-

937,140, the highest for one month ever recorded. The balance in favor of the United States was $277,445,659, against $441,556,486 in April. For five months this calendar year the balance is $1,815,804,014.

The decline of exports as shown in May is not surprising, in view of the extraordinary conditions that have existed. The wonder has been how the great balances created from month to month were being settled.

It must be considered that many residents of foreign countries have accumulated bank balances in New York during the war, and these are now being drawn upon for purchases here. The Scandinavian countries and Holland have done this on a large scale, and are now buying goods here for sale in Germany and eastern Europe.

One of the growing factors in this exchange situation, of which little has been said heretofore, is the return of foreign-born laborers who have been living in the United States, to Europe with their savings, and the investment of savings by foreign-born residents in the government obligations of their native countries. A large amount of savings belonging to Italians in America has been sent back for investment in Italian bonds. In the first place the 5 per cent bonds of the Italian Government have been obtainable at a considerable discount in Italian markets, and their American dollars are convertible at a premium of about 40 per cent altogether making the investment very attractive.

Returning Aliens.

The return movement of immigrants is assuming large proportions, and is held in check only by want of steamer accommodations. Five thousand persons sailed from New York for Italy upon three steamers on one day of last week. In the month of May the total departures was 26,812, and in June they have been averaging 1,000 per day.

By the provisions of a law passed last year no alien or citizen is allowed to leave the country without permission from the State Department, and they must pay their income taxes if they owe any. Over $1,000,000 of these taxes have been collected as a result of the enforcement of the law. Director Stewart of the Investigation and Inspection Services of the Department of Labor states that the number of aliens planning to leave the United States for their own country as soon as conditions will permit, number approximately 1,300,000, and that they will carry with them an average of $3.000 cash, which would give a grand total of nearly $4,000,000,000 to be carried out of the United States by departing aliens during the coming year. This is probably an over-estimate of the average amount, if not of the number, but it indicates that the movement is at least of large consequence in the exchanges.

The statements made by Director Stewart are based upon investigations made up to June 1st, in the sections where large foreign elements are found, notably the mining regions of Pennsylvania, the steel district of Illinois and Pennsylvania, the manufacturing district of New England and the great cities, notably New York and Chicago. He estimates that 35% of the Russians are seeking to return to their country, 34% of the Slovaks, 28% of the Austro-Hungarians, 22% of the Croatians, 15% of the Poles and 11% of the Italians and Greeks. These aliens seeking to return to their native country are actuated in part by a desire to find and aid lost friends and relatives, also in the belief that they will find land cheaper than formerly, and that they will also find employment in reestablishing industries.

Gold Embargo Lifted.

During the month the embargo upon exports of gold has been lifted. Permits for exportation are still required, but they are given practically without restriction, and the effect is seen in the rapid approximation of the dollar to the mint parity in the countries where it has been at a discount. Transportation charges are still higher than in normal times and affect exchange charges. The service of the gold standard, with a free flow of the metal between all markets, is shown by this speedy disappearance of the wide fluctuations which have marked the war period.

Permits for exportations have been granted aggregating over $200,000,000, but only about $70,000,000 has been actually shipped, as the simple fact that gold for shipment was available caused such a readjustment of exchange rates that shipments were unnecessary. The principal movements have been to Argentina, Spain and Japan.

The trade situation is such that there is much more probability of our having gold imports than that exports will reach important proportions. Several shipments have come from Canada during the month, and there has been serious talk that the British Government would allow the mine-owners of South Africa to dispose of their product as they please, in which event they would be very likely to use it for buying sterling exchange in New York instead of sending the metal direct to London.

Exchange on India has been difficult to obtain since the cessation of sales of silver by the United States Government to the Indian Government. The rupee has been quoted at about 42 cents with few transactions. Private importations of both gold and silver into India are still prohibited.

Credits for Europe.

Conferences are being held by bankers in this and other cities looking to the formation of an organization for supplying the needs of Europe. In general the plan contemplates the organization

of the several branches of industry in this country to supply the goods, credit to be provided by the sale of debentures or some similar form of security, on the public market, based upon collateral received from the purchasers, probably in the form of foreign government securities.

General Business Conditions.

Trade and industry have continued increasingly active during the past month, and confidence in the maintenance of this activity and in the stability of current prices throughout this year has been generally strengthened. The volume of payments as shown by the reports of the Federal reserve system has exceeded all records. The prominent factor in the situation is the great retail distribution of goods of common consumption, but along with this must be considered the export movement which is the mainstay of the price situation. With the present outlook for crops there would certainly be lower prices for all foodstuffs but for the great foreign demand. The double assurance of record crops and high prices has created an abounding prosperity throughout the agricultural sections, which reacts upon all industry. Along with the favorable crop conditions there is a feeling of relief and relaxation from the anxieties and restraints of war-time. The war is won, the boys are arriving home, the last loan "drive" is over, prices of products are high, land values are rising, and a feeling of elation and confidence prevails. As a result the demand for dry goods, clothing, shoes, house furnishings, jewelry, silverware, musical instruments, automobiles and like commodities is such as to keep dealers busy replenishing stocks and more concerned about deliveries than prices.

This applies to goods for personal and household consumption rather than to construction materials, but there is a good demand for lumber, hardware and other building materials. The compilation of building statistics by the *Financial Chronicle* shows that in 167 cities in the month of May permits issued aggregated $107,000,000, against $50,000,000 in May last year.

Clothing and Shoes.

In the case of textile goods the situation is affected not only by a strong demand for goods at home and a considerable foreign demand, but by a curtailment of productive capacity—resulting from shorter hours of operation. The claim that as much product can be turned out in eight hours as in nine or ten does not hold good when machinery does the work and limits the pace. The loss cannot be made good without additional equipment, and this is true in England and other countries as well as here. The builders of textile machinery are full of orders, but allowing for the replacements which must be made in Europe and for natural expansion of demand, it will be several years before the loss is fully made up. The world is short of cloth-making capacity at a time when its needs are very great.

The shoe industry is in much the same situation. The labor costs have nearly doubled, and as this country imports hides from all quarters of the globe the supply and cost have been affected by all of war's disorders. Moreover, there is an accumulated demand for leather for all its uses, not alone shoes, but belting, harness, automobiles, traveling bags, etc., and the export demand is heavy. The Government report upon markets, dated May 31, reported packer hides at 38 cents per pound for cows and 41 cents for steers, representing an increase of 14 cents and 11 cents respectively over the average in April. Calf stock selling last fall at 65 or 70 cents is now selling at $1.15 to $1.25 and still rising.

Lumber and Steel.

We are in receipt of a letter from Mr. Charles S. Keith, President of the National Lumber Manufacturers' Association, headquarters at Kansas City, under date of June 20th, in which he quotes the following extract from our June Bulletin:

> "Such raw materials as cotton, lumber, copper, steel and iron can be produced in this country far in excess of any home demand that is in prospect for the next year, and that is true of such equipment and machinery as Europe may want."

Mr. Kirby comments upon this statement as follows:

> "I have been asked to advise you what the lumber conditions are. The supply of lumber in the United States is less than one-half of normal. Production decreased during the war because the industry was not an essential one. The drafts made on our labor supply for the Army and war industries, together with restrictions placed on building, caused serious curtailment of production of existing operations. Last year and this year, 26 per cent. of the production of the South will cease operation because of depletion of raw material, with no corresponding increase in development from any other source to offset these cessations. Consumption of lumber in the United States has been in excess of production since January 1, 1919, and there is no probability of increase in production during the next year which will offset the depletion of production in the South and other sections of the United States.
>
> "In addition to the above, a very peculiar condition exists. The present Revenue Laws have a tendency to curtail production rather than increase it, for the reason that night running of the saw mill business to increase production, decreases the invested capital per thousand feet of annual production. A curtailment of production increases the invested capital per thousand feet of annual production. Increased production decreases the exemption under the War Excess Profits Tax, while curtailed production increases the exemption, with the resultant effect on the tax.
>
> "Notwithstanding the fact that prices have been stimulated by reason of extraordinary demand, the tendency is to refrain from increasing production for the reasons aforesaid."

This is an interesting statement, for two reasons. In the first place it shows how the exhaustion of the natural wealth of the country is contributing to the rising cost of living, thus necessitating greater efforts and efficiency in production to even hold living conditions from getting harder; and, second, it reveals another of the results of high taxation in discouraging production.

The iron and steel market is a little more active, buyers for current consumption supplying their wants freely, with prices practically unchanged. There is a good demand in certain lines, as for oil-field equipment, automobiles, agricultural implements, wire and ships. Operations upon structural steel are still much below capacity, and the railroad demand is very light. In general the demand which represents investment construction is light. The outlook for American products, particularly pig iron, in foreign markets is very good, as British costs are very high.

One good symptom of reviving industry is an increasing demand for coal. The large producers are counting upon all the business the railroads can handle for them during the remainder of this year. They are shipping considerable amounts to South America and Mediterranean ports, and expect to retain this foreign business.

Agricultural Conditions.

The wheat harvest is now well advanced over the winter-sown territory, and enough threshing has been done to confirm the accepted estimates of the yield. The Government's June estimate was 892,822,000 bushels of winter wheat and 343,181,000 bushels of spring wheat, a total of 1,236,003,000. The spring-sown crop in Montana and North Dakota is suffering from drought, but there is a likelihood that the shortage there will be made up in other states. The Kansas Department of Agriculture in the latest estimate for that state places it at about 220,000,000 bushels, which raises the Washington estimate by nearly 28,000,000 bushels.

The total wheat yield last year was 917,000,000 bushels, from which, with a very small carry-over, 296,000,000 bushels in grain and flour were exported to May 31. It should be practicable therefore to export 600,000,000 bushels in the coming year. Mr. Hoover has estimated that Europe will require to import from 700,000,000 to 850,000,000 bushels of wheat and rye. Including Canada, Argentina and about 200,000,000 bushels accumulated in Australia, it looks as though supplies would be ample, and that there might be a considerable carry-over in this country next year. British authorities are counting on lower prices by October.

A Question of Ships.

The question of shipping capacity was of dominating importance last year, the scarcity being such that ships were kept moving the North American supplies in preference to making trips to either Argentina or Australia. This year more ships are available, and as the British government already owns the Australian stores it probably will move them, and also take the Argentina crop, for trade reasons.

Apparently there is grain enough to make real competition, and the grain trade leans to the opinion that if the market was an open one the American crop would be bought below the Government's guaranty. Europe will have its own crops coming on soon, which will supply about three-fifths of its requirements, and thus be able to hold off on purchases until the latter part of the year. The Grain Corporation, representing the Government, will stand in the breach and take the crop at the guaranteed price of $2.26 per bushel to the farmer, and to avoid congestion at the terminals will allow premiums for deliveries after the month of July. An adjustment of prices will also be made to draw a due proportion of the grain through the Gulf ports. Imports and exports of wheat will be wholly in the hands of the Wheat Director.

The steady movement of hog products to Europe has kept the market for such products and for live hogs and corn near the top notch throughout recent months. Hogs have gone above $21 per hundred weight in Chicago, and closed the month at about that price. The price of corn is governed at present by that of hogs, and is around $1.80 per bushel in Chicago.

Corn, Cotton and Wool.

The corn crop is a little smaller in acreage than that of last year, but although unfavorably affected in spots by an excess of rain, on the whole promises well. The acreage of oats is also less than last year, but the total yield promises to be better than the average, and this is true of the other grains. The hay crop is one of the largest ever made. The fruit and vegetable crops are promising well. All in all the outlook is above the average for food production.

The acreage in cotton is estimated by the *Financial Chronicle* as 7.45 per cent below that of last year, and owing to an excess of rainfall the condition at this time is below the average, indicating, unless weather conditions improve, a crop perhaps not exceeding 12,000,000 bales. On the strength of this situation cotton has sold during the past week above 34 cents per pound for the nearby deliveries, the highest figures since the Civil War, another unfavorable circumstance affecting the world's supply of clothing. The month closed with December delivery at about 33.25.

Wool is also ranging at high figures. The Government has discontinued the auctions of its stocks, after disposing of about one-half its holdings. It retires now until the domestic crop is marketed, which is rapidly going on, at prices ranging from 45 cents for low grades up to 60 for high Montana quality.

Land Speculation.

Farm lands in the middle west have had a great spurt of activity this spring, and made a general advance, for farms in a high state of cultivation, of $25 to $100 per acre. The movement is largely speculative, but has a basis in the high returns that have been realized from the crops at war prices. The farmers have made money and the natural investment for them is in more land. The movement is stimulated by town speculators who buy for the purpose of selling again and make a market by selling to each other. The unfortunate feature of the movement is that a great body of indebtedness is being created, and if farm products should decline, as they must in some degree at least, this indebtedness is likely to be burdensome. There will be no better time for farmers to pay their debts than while they are receiving present prices.

Labor Conditions.

Unemployment is disappearing, even at the points where much has existed. Taking the country over, the labor situation is approaching that of scarcity. The smaller cities which did not have war industries are generally short, and the movement of returning aliens to Europe is taking tens of thousands from the industrial districts. Food supplies according to the statistics of the Bureau of Labor are as high as at any time last year, and this is true of household necessaries generally. The pressure for higher wages continues and there is a constant revision of wage scales upwards, all of which are promptly reflected in living costs. There is great unevenness in the wage advances that have been granted, which shows that this scramble for higher wages and prices on the whole is productive of injustice rather than of social amelioration. Thousands of deserving people are not in position to obtain an increase of income sufficient to meet the increased expenditures which the movement has imposed upon them.

It is clearly true that in such commodities as clothing, shoes, and other necessaries, the advances gained by one group of wage earners enter into the living expenses of all the other groups.

The advances which are made, although justified by present conditions, tend to establish present conditions and to make more difficult the readjustment in the other direction which will have to come before the situation is finally stabilized.

Uncertain Elements.

On the face of the situation conditions in this country appear to be stabilized and fairly in balance for continued prosperity, but there are important elements about which there is great uncertainty, and some features which plainly are temporary. Our export trade is in enormous volume, but in a most abnormal state. Judged by the needs of other countries for our products, it should continue heavy for at least another year, but it cannot continue unless unusual measures are adopted to aid foreign purchasers in making settlements. If this outgoing flow of products should be materially checked there would be accumulations in the home markets which would affect both prices and employment.

As already stated the whole industrial situation is largely supported at present by agricultural prosperity, and the latter is supported by the foreign demand. How quickly this may change has been shown by the fall in dressed beef and beef cattle which has occurred since the first of April, as the result of the falling off of exports and sales to the armies. It might be supposed that the demobilized soldiers would eat as much beef as private citizens as they did in the army, but apparently they do not, and the foreign private demand is chiefly for pork products. Throughout last year the United States Government bought from 60,000,000 to 100,000,000 pounds of dressed beef monthly. Since April 1 there has occurred one of the most sharp and severe declines in beef cattle ever known in the trade, amounting to 2 to 4 cents per pound, inflicting heavy losses upon farmers who had prepared cattle for market upon high-priced corn. Mr. Everett C. Brown, President of the Chicago Live Stock Exchange, is quoted as saying that for the 250,000 head of cattle estimated as arriving at the Chicago yards in the month of June the farmers will receive $10,000,000 less than on the basis of March prices. He says that wholesale prices of beef have declined correspondingly, but that retail prices have not, and that domestic consumption therefore does not increase as it should to take up the surplus.

Position of the Farmer.

This illustrates how quickly and inevitably agricultural products respond to the conditions of supply and demand, and also how a decline in the prices of farm products will affect the purchasing ability of the farming districts in the general markets. The theory that everybody else can fix his own pay and the farmer have to pay it will prove a fallacy. The farmer cannot pay out any more than his income, and one-third of the population of this country live either on farms or in rural communities directly dependent upon agriculture. If when farm products generally come down

the attempt is made to keep all other prices up, the effect inevitably will be a decline of distribution with resulting unemployment. Domestic trade as well as foreign trade consists of an exchange of commodities and services, and trade is bound in the long run to reach an equilibrium. The recent report of the International Harvester Company shows that its wage scale is now double what it was before the war. The farmer is paying this scale when he buys implements, and he is paying similar wages for railway transportation, clothes, shoes, and generally for what he buys. These wages are justified while the farmer receives present prices for his products, but, it does not require the gift of prophecy to foretell that if his receipts are cut in two his purchases will be correspondingly reduced. In other words his purchases will give employment to just one-half the present number of wage-earners, if present wages and prices are maintained. The only fair and rational adjustment will be by having a general revision of costs to correspond with the reduction in farm products as the latter occurs. There can be no injustice in the economic world without retribution.

Railroad Situation.

Another unsatisfactory feature of the situation is the position of the railroads and public utilities. This country has never enjoyed a general state of prosperity, if the feverish and fictitious war prosperity is excepted, in which railway expenditures were not a large factor. At this time, however, the railroads are in no position to make any expenditures beyond what are absolutely necessary to keep them in operation. The Director of Railroads asked Congress for $1,200,000,000, with which to clean up the Government's obligations on account of the railroads, and Congress is giving him $750,000,000 with the promise to consider providing more later. In his statement to the House Committee on Appropriations upon this matter the Director said:

> "Our definite policy is that we are not going to make any capital expenditures for the year 1919 for these companies unless they finance them themselves, or unless they are of such an urgent character that we must go ahead with them in advance of arranging the financing. But the important point is that we are asking only for $253,435,760 on account of capital expenditures for 1919, although it is estimated that those capital expenditures will be $653,227,682 and generally speaking, either the corporations will have to finance the difference or the improvements will not be made, unless there is some extreme urgency that calls for their being made."

The $253,435,760 referred to is chiefly for equipment already ordered and delivered.

This shows what may be expected from the Government in the way of railroad improvements, nor can it be expected that the railroad companies will launch out upon capital improvements until they know what plan of permanent reorganization is to be adopted by Congress.

These are unsettled but important matters which must be settled before it can be said that the business of the country is on a sound and permanent basis.

High Cost of Living.

Apropos of the high cost of living in the cities, now at or still near the top notch, notice should be taken of the discontinuance of an interesting experiment in company stores by the Interborough Rapid Transit Company, which was brought to a close about the first of this year. There was a time when it was common practice for industrial corporations, particularly in rural communities, to operate company stores as a source of profit, but the Interborough, which operates the principal street railways of this city, did not establish its grocery stores for that purpose. Having regard for the rising cost of food supplies the management considered that it would be doing a helpful thing to undertake to distribute the common articles kept in a grocery store to its employes at wholesale cost. It inaugurated the policy several years ago, locating these stores as conveniently as possible upon its lines, to serve the employes. Passes upon the lines were granted to the wives of employes, to enable them to visit the stores without cost. There was no delivery service and sales were for cash only, but at wholesale cost. The company paid the rent and upkeep of the stores and salaries of clerks, etc., and supplied the required capital without charge, so that goods could be sold strictly at wholesale cost without figuring overhead expenses. The stores were clean, well-lighted and well-equipped, and manned by an efficient staff of clerks. It was calculated that the savings afforded to patrons were approximately thirty per cent, and to guard against outsiders taking advantage of the bargains a card system of identification was put into effect for employes and their families.

At first the patronage of the stores was large and the experiment seemed to be a success, but gradually interest diminished and sales declined. The company was willing to bear the overhead cost involved in the investments, rent, etc., provided the sales were large enough to signify important benefits to the employes, but finally it was concluded that this was no longer the case. The stocks accordingly were sold out and the business closed up.

The experiment seems to show that the small grocery stores scattered throughout the city serve the consuming population to its satisfaction better than any system of central markets can do. The small store system is criticised as uneconomical and costly, but apparently the consumer is willing to pay the cost for the service which is rendered.

A recent study of delivery service in the city of Washington, conducted by the Census Bureau, showed that for bakery products the percentage of delivery costs to gross sales averaged 19.8 per cent; for dairy products, 12.1 per cent; for ice cream, 14.9 per cent; for coal and wood, 15.2 per cent; for ice, 45.6 per cent, and for food products as a whole 7.4 per cent. Through the influence of the Commercial Economy Board during the war delivery service was simplified and reduced in many cities apparently without arousing serious protest from the public. The most common change was a restriction to one delivery per day.

Cost of Modern Service.

Miss M. B. Van Arsdale, professor of household arts, Teachers' College, this city, and member of the New York State Council of Farms and Markets, discussing the general subject of the high living costs recently is quoted as follows:

"Some people say municipal markets would help the present situation. They would cost the city a fortune, and it will take considerable investigation to decide whether that investment by the city will bring down the cost of food to the people sufficiently to pay for the experiment. But it is a matter of paramount interest that this should be thoroughly studied. Other people say that 'community buying' will solve the problem, but what do they mean by community buying? A variety of things, doubtless; since it appears that something like 1,500 community buying schemes have been tried, from time to time, in New York. Surely this is not the panacea!

"On one thing practically everybody is agreed: we all want the price of food to be lowered; but what do we mean—lowering the cost of food only, or are there other factors which need to be considered—notably sanitation—which if properly handled may increase the price of food commodities? Never was there a time when so much intellectual honesty was needed in grappling with this problem which is knocking at the door of every home, be it rich or poor.

"The women who will be called upon in the next few years to help solve the difficulty must first of all realize that the cost of food is high, not only because of the war, but from other causes also for which they themselves are largely responsible. Women's clubs have insisted during the last few years on the sanitary aspects of food and on the sale of food done up in small packages which have been thoroughly inspected and duly labelled. All of this costs a great deal of money. Molasses, vinegar, and syrup, which used to be doled out from a keg into a container which the woman herself brought to the store, are sold now in quart and pint bottles, which are necessarily expensive. Women have fought hard for this method of sale, which they considered to be desirable, but are they willing to pay the price? Will it, perhaps, be necessary for us to go back to the bulk method of buying food if we really must have the cost reduced. In other words, can we eat our cake and have it too?"

Another Factor in Prices.

A firm operating important retail markets in San Francisco writes us as follows:

"About seventy per cent of a beef carcass is what is called 'coarse' meat. This meat, while much cheaper in price, if properly cooked, is, nevertheless, very nutritious and healthful and it sells on the market for about one-half of the price of prime beef cuts. Yet, it has been a drug on the market, in San Francisco, of late on account of the very limited demand.

"A very good friend of mine, engaged in the retail meat and provision business, advises me that all winter long he has had great difficulty in disposing of storage eggs and storage butter, although the prices of these commodities have been about 25 per cent or 30 per cent below the prices of the fresh commodity.

"It would seem from these facts, therefore, that on account of the prosperity of the masses, they are indisposed to purchase anything but the highest priced articles. You can readily understand that this demand for these high priced articles materially increased the cost of the prime cuts of beef and fresh eggs and butter.

"I have had under consideration the matter of organizing a co-operative campaign, for advertising in the daily papers, the fact that coarse meats, if properly prepared, have more nutrition than prime cuts, in the hope that we will be able to reduce the price on prime cuts and increase the demand for coarse meats."

Individual Responsibility.

The foregoing instances which serve to illustrate the part which the individual choice of consumers plays in influencing prices, prompts further reflection as to the extent of individual responsibility for unsatisfactory conditions. It is the fashion now with those who are discontented with the situation in which they find themselves to file a general charge against the whole social organization, without considering very critically their own obligations to that organization.

At the moment there are a great many men looking for employment in some of the leading centers of the country, and at the same time a crying need for men on farms. The place above all others where men are wanted at this time in order to secure the production most needed is on the farms. Business men are urged to find places for men whom they do not need. Taking the whole country over, there is plenty of work for everyone, but there is the problem of suiting each man with the job. Under these circumstances there is need for organization and some assistance, but there is some responsibility also upon the individual to take the kind of work needing to be done.

There is also a great shortage of women who will do housework, while strenuous efforts are being made to raise the wages of women in industries. If more women would turn to the field in which they are greatly wanted it might be easier to get wages up elsewhere. Does the right to work include a claim on society for a particular kind of work and a chance to do it in an entirely agreeable locality? Where does the individual's responsibility come in?

Loans to Small Farmers.

The Patriotic Farmers' Fund, which was organized in New York State two years ago by public-spirited men to make small loans to farmers

who were not in a position to obtain ready bank accommodations on their own credit has been reorganized and incorporated under the State banking law as the "Farmers' Fund, Inc." The original purpose was to give aid to production during the war, but the results were such as to encourage the managers to believe that a permanent organization in that field was wanted.

The statement given out shows that during the two years 9,000 borrowers have used the Fund and an aggregate of $900,000 has been loaned. Of the first year's loans about 60 per cent were paid promptly at maturity; the remainder were renewed and in some cases paid in installments, 100 per cent now having been collected. Of the 1918 business 65 per cent was paid off at maturity, and the balance are being treated as before.

The success of the plan has been largely due to the voluntary co-operation of 1,500 local loan committeemen throughout the state, who passed upon the applications, and the agent banks which handled the funds and looked after collections. It is estimated that the food production of the state was increased $5,000,000 as a result of the loans.

The experiment has been impressive to those associated with it as demonstrating the educational value of efforts of this kind and that they can be carried on with only small losses. The statement says that the effect is to accustom the small farmer to the right use of credit and better business methods, and to improve his methods and volume of business. It adds "that the bankers who join in this movement should be able to create new accounts, to bring new people into acquaintance with their banks, and to place a very large and valuable insurance against the unrest of the present day by being able to assist, at minimum risk, the farmers of the respective localities."

The permanent company is now organized with a capital of $400.000 and a surplus of $100.000, under the investment company law of this State. It will be governed by a board of directors composed of thirty well-known bankers. Loans will be made only to directly aid production, not for building purposes or to buy land.

This is in line with the work being done by Bankers' Associations in many states, and everything quoted above is worthy of wide circulation and endorsement. The appeal and obligation of the day is to help develop our sources of wealth and make our people more productive and prosperous. It was worth doing for the sake of winning the war, and it is still worth doing, to increase the wealth of the country, raise the standard of comfort in the homes and make better citizens of the rising generation.

The call for co-operation should meet with a ready response in this state, and outside the state we suggest that bankers go ahead independently on the same lines or through their state associations. It has been demonstrated that this kind of work pays in the development of business, and still more in the satisfaction that follows upon the development of good-will and the evidence of benefits conferred. Numerous banks in rural communities are now employing a farm adviser to investigate the opportunities in their territory for increasing their business with farmers and for increasing the business of the farmers by the judicious use of credit. The First National Bank, of New Haven, Conn., and the Holyoke National Bank, of Holyoke, Mass., are two of these. This is community up-building, worth more as a means of counteracting incendiary agitation than all the literature that could be disseminated.

National City Bank Branches.

Branches of this bank will soon be opened in Madrid and Barcelona, Spain; Brussels and Antwerp, Belgium; and Zurich, Switzerland. New branches have been opened during the last month at Santa Clara, Union del Rayo, Pinar del Rio, Ciego de Avila and Artemisa, Cuba, also a third branch in the City of Havana. The branches in Cuba will soon number 25. A branch was opened at Pernambuco, Brazil, and another at Port au Spain, Trinidad, during the month. The International Banking Corporation has opened a branch at Rangoon, Burma.

The Bond Market.

A survey of the June bond market shows a strong undertone as the result of a general absorption of issues throughout the United States by private investors. Banks as a class have not been as active in the bond market due to local demands. The larger investment houses reported an excellent distribution of issues and some dealers in summarizing their weekly totals found that new records had been established.

New offerings during the month were in large volume and covered the broadest list of securities presented since the armistice. The principal issues were $54,000,000 Federal Land Bank 4½% Farm Loan Bonds, $25.000 000 Swedish Government 6% Bonds, $25.000,000 Empire Gas & Fuel 6% Notes, $8.000,000 Central of Georgia Railway 6% Bonds and $6,250,000 Morris & Company 4½% Bonds.

The trend of prices for Liberty 4¼s was slightly downward, the net decline amounting to about ⅜ of 1%. The interesting feature of the government bond market was the listing of Victory 4¾ and tax exempt 3¾; the former opened at 99.90 and sold from 99.88 to 100, while the 3¾s sold from 100.04 to 100.20. Industrial bonds reached their highest average since the armistice.

Toward the middle of the month prices declined slightly and the high money market, which caused material contraction in stock trading, had a sentimental effect which also reduced bond transactions. The feature of the

Liberty bond market was the strength in tax exempt issues, Liberty 3½s reaching 99.70 and Victory 3¾s, 100.44. Local traction issues declined following the report of Mayor Hylan's opposition to an increase in local fares. Municipal prices were firm, with dealers reporting a scarcity of tax exempt issues as the result of the wide demand.

The month closed with an active market. Public utilities advanced in price and the improvement in tractions was attributed to ex-President Taft's address before the Federal Commission of Electric Railways in New York. Industrial bonds continued their upward trend. This class of security is in a particularly favorable position at the present time for many of the companies have large surpluses and have been able to call their bonds. Bethlehem Steel called the first two issues of its 7% Notes, a total of $15,000,000, while the Cudahy Packing Company called $1,500,000 of its 7% Notes for the sinking fund. The demand for municipals was not as broad but prices remained firm. The State of Pennsylvania sold $12,000,000 4¼% tax free road bonds which were offered on a 3.90% basis. There were ten bids for the issue and the sale registers the record price this year for state and city bonds. War Finance Corporation 5s have been actively traded "over the counter." Second grade rails are attracting attention. Missouri Pacific First and Refunding 5s due 1965 are quoted 87½, about a 5¾% basis, which compares with 96 in 1917. Chicago, Milwaukee & St. Paul 25-year 4s are quoted at 72¼, yielding 7%, which compares with 95 in 1917.

Acceptances totaling $40,000,000 drawn under the $50,000,000 Belgian Export Credit, have been sent to the various syndicate participants for acceptance and will appear on the market this week at rates from 4¼ to 4 5/16.

The combined average of 40 active issues as compiled by the Wall Street Journal on June 30 was 85.30, compared with 85.88 on May 30 and 83.45 on June 30, 1918.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JUNE 27, 1919.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas. City	Dallas	S. Fr'sco	Total
Gold coin and certificates	[illegible]	210.322	419	36,180	2,198	7,939	23,367	3,794	8,394	94	7,420	10,382	314,135
Gold Settlement Fund F.R. Board	33,536	[illegible]	42,662	30,962	24,365	11,295	91,909	23 075	24,549	29,607	6,922	22,644	597,046
Total gold held by banks	37,162	465,842	43 081	67,142	26,563	19,234	115,276	26,869	32,943	29,701	14,342	33,026	911,181
Gold with Federal Reserve Agents	57,135	292 311	68,205	115,510	32,090	42,668	261,677	53,729	36,581	25,113	15,904	112,901	1,113,824
Gold Redemption Fund	14,236	24 829	13,336	810	8 562	5 423	27,140	4,258	3,781	16,255	3,327	822	122,779
Total gold reserves	108,533	782,982	124,622	183,462	67,215	67,325	404,093	84,856	73,305	71,069	33,573	146,749	2,147,784
Legal tender notes, Silver, etc	7,041	51,541	251	938	452	1,528	1,109	3,050	103	237	1,997	225	68,472
Total Reserves	115,574	834,523	124,873	184,400	67,667	68,853	405,202	87,906	73,408	71,306	35,570	146,974	2,116,256
Bills disctd: Sec. by Govt. war obligations (a)	144,720	567,632	173,957	119,768	73 349	71,819	200,427	56,405	39,110	44,662	28,494	53,110	1,573,483
All other	10 454	53,485	17,229	7,201	14,826	16,771	21,824	9,693	4,908	48,985	24,360	14,821	244,557
Bills bought in open market (b)	18,180	100,822	860	36,972	7,744	7,173	40,463	7,396	18,786	8	1,020	65,134	304,558
Total bills on hand	173,354	721,939	192,046	163,941	95,919	95,763	262,714	73,494	62,804	93,655	53,874	133,065	2,122 598
U. S. Governm't Bonds	539	1,302	1,385	1,083	1,234	376	4,476	1,153	116	8,862	3,966	2,632	27,130
U. S. Victory Notes	[illegible]	50	2			7			246				[illegible]
U. S. certificates of indebtedness	16,916	63,901	21,861	17,497	6,360	10,599	24,612	17 068	6,924	6,880	5,688	5,798	204,194
Total Earning Assets	190,839	787,192	215,294	182 521	103 513	106,745	291 802	91,715	70,090	109,403	63,428	141,525	2,354,167
Bank premises	800	3,972	500	875	392	218	2,936	541		401	222	430	11,257
Uncollected items (deduct from gross deposits)	62,642	175,776	62,180	55,322	51,036	26,953	76,149	43 555	15,026	55,172	19,997	39,755	680,061
5% redemption fund against F. R. bank notes	846	1,844	1,075	859	448	508	1,626	879	314	730	396	408	9,714
All other resources	314	2 942	994	902	723	371	1,612	508	180	484	703	818	10,551
TOTAL RESOURCES	371,015	1,806 249	404 916	421,879	226 779	203,649	779,327	224,884	159,018	237,496	120,416	329,380	5,288,008
LIABILITIES													
Capital Paid in	6 877	21,445	7,651	9,233	4,205	3,247	11,453	3,866	3,011	3,762	2,246	4,774	82,764
Surplus	2,556	21,117	2 608	3,552	2,196	1,510	6,416	1 603	1,415	2,421	1,184	2,448	49,466
Government Deposits	11,332	15,363	10,680	5,387	4,297	4,942	3,959	4,882	3,184	6,308	528	2,522	73,614
Due to members reserve account	106,625	730 278	100,213	123,903	51,156	44,997	226,012	58 762	51,051	80,735	43,583	85,715	1,713,030
Deferred availability items	45,330	126,268	54,473	48 942	46 935	21,828	68,781	35,684	10,662	35,309	15,613	24,595	534,420
All other deposits	1,793	103,869	1,229	253	109	107	2,528	340	378	258	114	4,514	115 693
Total Gross Deposits	165,080	975,778	161,595	178,485	102 497	71,874	311,280	99,868	65,275	122,511	59,868	117,346	2,436 757
F. R. Notes in actual circulation	176,159	737,437	203,703	214,663	109,630	115,662	421,672	102,980	82,002	93 677	46,937	194,748	2,499,180
F. R. Bank Notes in circulation, net liability	16,700	35,143	20,708	15,895	6,148	9,707	24,461	15,196	5,975	12,393	7,695	7,024	177,185
All other Liabilities	3,143	15 329	3,571	3,051	2,103	1,649	4 045	1,491	1,310	2,432	1,492	3,040	42 656
TOTAL LIABILITIES	371 015	1,806,249	404 916	421,879	226,779	203,649	779,327	224,884	159,018	237,496	120 416	329,380	5,288,008

(a) Total Reserve notes in circulation, 2,499,180.

(b) Bills discounted and bought: U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,585,550; 16—30 days 187,964; 31—60 days 239,564; 61—90 days 122,155; over 90 days 191,469. Total 2,326,702.

Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 62.1%. Ratio of gold reserves to F. R. notes in actual circulation after setting aside 35% against net deposit liabilities 64.2%.

Foreign Issues.

Foreign government bonds were steady, and the Russian 6½s advanced despite the fact that it has been found necessary to defer payment of principal and interest. This issue of three-year notes, sold in this country in 1916, fell due on June 18, and Mr. S. Ughit, Charge d'Affaires and interum of Russia and Financial Attache to the Russian Embassy, gave out the following statement in reference thereto:

"On behalf of the Government of Russia, I desire to announce that due to circumstances beyond control I shall be unable to provide funds to meet at maturity the Imperial Russian Government $50,000,000 6½% Three-Year Credit.

"I have been in communication with the All-Russian Government in Omsk, under Admiral Kolchak, and, while I have received no reply as yet, the published accounts of Admiral Kolchak's communication to the Allied Governments clearly state that the external obligations of the Russian Government issues prior to November, 1917, will be recognized. I am sure this matter has been given earnest and serious consideration, and I am confident that the holders of this obligation may reasonably expect arrangements to be made for the payment of this debt as soon as the All-Russian Government is formally recognized."

Mr. Albert H. Wiggin, acting as Vice-Chairman of the Foreign Securities Section of the Investment Bankers Association, has appointed the following committee in the interests of Americans who participated in the $50,000,000 6½% Russian Credit: J. H. Fulton, Executive Manager of the National City Bank, Chairman; Thomas Cochran of J. P. Morgan & Co., N. Dean Jay of the Guaranty Trust Co., Lloyd W. Smith of Harris, Forbes & Co., Charles S. Sargent, Jr., of Kidder, Peabody & Co., Frederic W. Allen of Lee, Higginson & Co., and Albert H. Wiggin, ex-officio.

Hon. Frank L. Polk, Acting Secretary of State, has made the following public statement:

"Owing to the present confusion in Russia, it is not practicable at this time for the State Department to make any presentation of the legal claims of American citizens against Russia. The people of America, however, are now, as they have been in the past, most sympathetic with the great Russian people and eagerly desire to see them work out for themselves a stable form of government, and when that time comes the State Department will use its good offices to call such claims to the attention of that government. With reference to the $50,000,000 credit established by certain banks in the United States, it will be remembered that this money was advanced in good faith when Russia was fighting for her life, and that the credit was primarily for buying supplies which were sorely needed by the Russian people for their military and civilian needs at the time.

"Whatever stable government may ultimately assume control in Russia, it is to be expected that it will follow the practice which enlightened governments have always followed, of recognizing the legitimate external loans of prior governments."

DISCOUNT RATES

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to June 30, 1919.

Federal Reserve Bank.	Discounts other than trade acceptances.							Trade acceptances.	
	Secured by U. S. Government war obligations			Otherwise secured, also unsecured, maturing within—				Maturing within—	
	Maturing within 15 days, including member banks' collateral notes.		Maturing within 16 to 90 days.						
	Secured by U. S. certificates of indebtedness.	Secured by Liberty bonds and Victory notes.		15 days, including member banks' collateral notes.	16 to 60 days.	61 to 90 days.	Agricultural and live-stock paper over 90 days.	15 days.	16 to 90 days.
Boston	4	[illegible]	4¼	[illegible]	4¾	4¾	[illegible]	[illegible]	4½
New York [1]	[illegible]	4	4¼	[illegible]	4¾	4¾	5	[illegible]	4½
Philadelphia	[illegible]	[illegible]	4¼	4	4¾	4¾	5	4	4½
Cleveland	4	[illegible]	4¼	4¼	4¾	4¾	5¼	4¼	4½
Richmond	[illegible]	4¼	4¼	4½	4¾	4¾	[illegible]	4½	4½
Atlanta	[illegible]	[illegible]	[3] 4¼	4¼	4¾	4¾	5	4¼	4½
Chicago	[2] 4	4¼	4¼	4¼	4¾	4¾	5½	4¼	4½
St. Louis	[illegible]	[illegible]	4¼	[illegible]	4¾	4¾	5½	[illegible]	4½
Minneapolis	4	[illegible]	4¼	4½	4¾	5	5½	4½	4½
Kansas City	[2] 4	4¼	4½	4½	5	5	5½	4½	4¾
Dallas	4	[4] 4	4¼	4½	4¾	[illegible]	5¼	4½	4½
San Francisco	4¼	4¼	4½	4¼	[illegible]	5	5½	4¼	4¾

[1] Rates for discounted bankers' acceptances maturing within 15 days, 4 per cent; within 16 to 60 days, 4¼ per cent; within 61 to 90 days, 4½ per cent.

[2] Rate of 4 per cent on paper secured by fourth Liberty loan bonds where paper rediscounted has been taken by discounting member banks at rates not exceeding interest rate on bonds.

[3] Applies only to member banks' collateral notes; rate of 4¼ per cent on customers' paper.

[4] Rate of 4¼ per cent on member banks' collateral notes.

Note 1.—Acceptances purchased in open market, minimum rate 4 per cent.

Note 2.—Rates on paper secured by War Finance Corporation bonds, 1 per cent higher than on commercial paper of corresponding maturity.

Note 3.—Whenever application is made by member banks for renewal of 15-day paper the Federal Reserve Banks may charge a rate not exceeding that for 90-day paper of the same class.

THE NATIONAL CITY BANK OF NEW YORK

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, AUGUST, 1919.

Foreign Trade and Exchange.

THE foreign trade situation becomes more critical as time passes. This country's exports in June reached the enormous sum of $918,000,000, exceeding by over $200,000,000 the highest previous month's record. Imports were only $293,000,000, leaving a trade balance of $625,000,000, to be settled in some way, nobody knows just how.

The big balance for June carried the balance for the fiscal year beyond the estimates. Exports for the year ended June 30 aggregated $7,225,000,000, as compared with $5,920,000,000 in fiscal year 1918, and imports aggregated $3,096,000,000. The trade balance for the year as officially reported was $4,129,000,000, but as the official statistics still treat silver as a money metal and not merchandise the net exports of silver valued at $222,000,000, should be added.

We have presented this unbalanced state of foreign trade to our readers so often, that possibly the continuance of details and reiteration of warnings is becoming tiresome, but the situation is important enough to justify all the attention it has been given. Even large business interests show a surprising degree of indifference to it, due apparently to a feeling that exchange is a matter for the bankers to look after, or that the Governments will take care of it. Perhaps the fact that we had a favorable balance of over $4,000,000,000 last year creates confidence that we can have another of like amount in the coming year. It must be remembered, however, that during the year just closed the Government of the United States loaned approximately $3,500,000,000 to foreign Governments to assist them in making payments in this country. But that authority is nearly exhausted and from now on credits must be provided in some other way. That is the serious feature of the situation.

Exchange Rates Breaking.

When the British Government in March abandoned the policy of supporting sterling exchange in New York—as it had to do sooner or later—the pound sterling dropped to about $4.50, but soon rallied and fluctuated between $4.60 and $4.65 until about the middle of July. Then heavy offerings of bills and a weakening of confidence in the situation caused a slump, and rates went as low as $4.26. From this there has been recovery and at the close of the month quotations were about $4.36. This represents a discount of about 10 per cent from mint par, by which is meant the melting value of sovereigns. If gold sovereigns could be withdrawn from the Bank of England and brought to this country they would bring $4.8665 at the United States mint. But the exportation of sovereigns is prohibited except by permission of the authorities, hence the existing discount on currency, or premium on New York exchange, as you please to call it. In support of the latter view it may be said that all the other exchanges are now in favor of London. It is a creditor toward every country but the United States.

Other Exchanges Down.

The other exchanges went down with London; probably the efforts from other countries to pay New York through London helped put the latter down. The following table showing the discount on foreign money as compared with the mint conversion value into the United States money will show how serious our trade situation is:

Country.	Unit	Value in U. S.	Present Rate.	Discount.
Germany	Mark	.2382	.0625	74%
Italy	Lire	.1930	.1168	39%
Belgium	Francs	.1930	.1345	30½%
France	Francs	.1930	.1370	30%
England	Pounds	4.8665	4.3650	10%
Switzerland	Francs	.1930	.1785	7½%
Holland	Florin	.4020	.3775	6%
Denmark	Kroner	.2680	.2225	17%
Norway	Kroner	.2680	.2375	11%
Sweden	Kroner	.2680	.2475	7.6%
Spain	Peseta	.1930	.1930	Par
Argentina	Peso	.9648	.9615	1/3%
Japan	Yen	.4885	.5080	Prem. 1-9/10%

It must be understood that the residents of the above countries desiring to make purchases in the United States are obliged to convert their home money or bank credits into terms of dollars in the United States, and the above figures represent the cost of doing so. It appears at a glance that the handicap upon

American sales in all these markets is very serious. We think prices are high in our own markets, but when these peoples buy our products they must pay freights and these exchange charges in addition.

England is at a like disadvantage in some markets, although to a less degree. The English newspapers tell of recent competition between English and German contractors over a large contract in Holland, in which the English lost because exchange on London was at a premium while exchange on Berlin was at a discount. The uninitiated do not understand why a favorable trade balance should be unfavorable to more trade, but such is the case. Before the war when we owed the rest of the world $500,000,000 per year for interest, freight charges, etc., they could take that amount of our products and simply give us credit on account; now, when they owe us $500,000,000 for interest they have to dig up that amount before they can make any purchases from us.

Exchange Situation Unpromising.

The exchange situation is not unlikely to be worse before it is better. The seaman's strike on the Atlantic coast of this country held up shipments in July and diminished the offerings of foreign bills, but that is over now. Europe is getting into shape to use raw materials, but the foreign exchange market is not in condition to take bills on an increased scale or even at the rate of recent months. If they are offered in such amounts rates will inevitably fall and continue to fall until exports are checked or some arrangements are made for converting the bills into long-time obligations. Reports are current that foreign orders are being cancelled as a result of the threatening situation, and it is difficult to see how anyone can take the risk which attaches to transactions to be closed in the future. Sir George Paish is quoted as saying in London that sterling exchange may go to $4.00. It would not stop even there unless trade came back into balance, or the heavy discount induced American investment in British securities. There are, of course, still considerable holdings of American securities in England, and it would seem that present exchange rates, in conjunction with the rise of the New York security market would bring them out.

It is idle to talk of helping this situation with ordinary commercial credits. The trade situation cannot right itself in six months or even a year. Time must be allowed for Europe to get its industries into operation and liquidate these obligations with its own exports. Furthermore, every proposal which contemplates use of the Federal Reserve banks should be condemned. This is not their kind of business, and it is high time to stop expanding these banks to take care of every new demand. Investment capital should be found.

Finally, we must expect to admit the products of our debtors to our markets; it will be folly to make loans which can never be paid except in their products and then deliberately close our markets to their products. We have not yet as a people assimilated the idea that foreign trade is fundamentally an exchange of commodities and services, as, for that matter, is domestic trade.

Movement to Supply Credits.

Considerable financing in aid of foreign purchases is going on in a small way. The Government of Sweden has sold $25,000,000 of bonds in this market and Switzerland $30,000,000, but the latter was partly for refunding purposes. We have told heretofore of the $50,000,000 acceptance credit provided by a syndicate of banks for a syndicate of Belgian banks, and a smaller amount of acceptance credit has been arranged for Czecho-Slovakia. Business is going on between individuals and corporations which in the aggregate makes an important volume, but the sum total does not approach the figures of accruing trade balances.

During the war large bank balances were accumulated here by parties resident in neutral countries and important sums were invested in American short-time securities, such as bank acceptances and treasury certificates. The purchase of $50,000,000 of certificates by the Bank of Japan is a case in point. The Scandinavian countries are known to have accumulated large credits. These credits have been drawn down and security holdings have been reduced, in payment for recent purchases, and negotiations are proceeding for credits.

These efforts, however, do not meet the situation, as exchange rates show, and we adhere to the opinion heretofore expressed that such desultory, unorganized, individual efforts cannot handle the situation in an adequate manner. Billions of credit will not be forthcoming in this manner, and nothing short of billions will sustain this volume of foreign trade. Moreover if this trade is not supported a change will come in the domestic situation. Without this outflow of products the home markets will be congested and industry will be unfavorably affected.

Bankers' Movement.

The movement started in banking circles to organize the country for this purpose is not making very satisfactory progress. The bankers feel that if it is purely a bankers' movement it will be misunderstood and fail of success. It is not a proposition for the benefit of bankers, or an undertaking which the banks alone can handle. They cannot tie up their resources in foreign credits. They are keenly alive to the necessity for action and have sounded the warning faithfully, but if the

movement is to reach adequate success it must have the help of the entire business community, and be sponsored by the Government. Meanwhile every week now is valuable time.

Who Are the Chief Sufferers.

Business and official circles in England accept the present relation of the sovereign to the dollar with apparent equanimity if not satisfaction. The discount on the sovereign makes it more difficult to sell American goods in England and easier to sell English goods in America. Confidence has been frequently expressed that America would be interested in correcting this state of things, and the rallies of sterling have been attributed to American support. As yet, however, there has been no organized effort to control the market.

It is not altogether clear which side is most interesting in stabilizing the exchanges. If nothing is done and American exports are curtailed prices will fall rapidly in this country. Some people think this would be beneficial. The cost of living would come down; the problem of inflation would be solved; this would be the first country in the world to get back to a normal basis. But the effects would not be altogether agreeable. Industry would be disorganized by such a sudden loss of markets. We would be thrown back on our own resources and it would be some time before the domestic market would furnish employment to all the wage-earners. We would have a loss of production at a time when great need for it exists.

On the other hand Europe cannot get along without our cotton, grain, meats, copper and other raw materials. Without them people will starve, industry will stagnate and social chaos will result.

The truth is that the situation is injurious to both sides and it ought to be remedied by intelligent public-spirited action. The United States is not only interested in correcting the situation but is better able than any other country to do it. If it fails to meet the emergency it will be difficult to make any other explanation than that we do not as yet recognize the responsibilities that properly belong to our position in world affairs, or know how to act nationally for the protection of our interests.

Opportunities for Investment.

The low exchange rates create unusual opportunities for money-making to those who are sufficiently cosmopolitan to be as willing to make money in one country as another. There are great cotton mills in Poland and Czecho-Slovakia standing idle and their skillful men and women operatives are also idle because they have no raw cotton to work on. They have no means of buying cotton in the United States, and cotton goods are bringing fabulous prices all over Europe. Here is an opportunity for American business men to finance the delivery of cotton and take their pay in the products at the mills. The market would be all about them. It is true that they would not be able, on account of the exchange situation, to withdraw their capital until some time in the future, but that would be no serious drawback because it would be profitably employed. Some one may object that the employment of American capital abroad would not be helpful to the United States, but that objection is both selfish and shallow in a time like this. The best use to which capital can be put now is helping Europe back to a self-supporting position. The textile industry cannot be expanded quickly in this country. The manufacturers of textile machinery are sold ahead for two years, the supply of skilled labor is short and the hours for operating machinery have been cut from 54 to 48 per week. In Poland, Bohemia, Austria, Germany, Italy and France there are idle mills, idle machinery, idle workers and bare markets. Similar opportunities exist in other lines of industry. The best business man is he who is ready to adapt his policies to existing conditions. The problem now is to put these populations to work.

Hollanders are figuring on sending cotton into Germany to be made up for a manufacturing charge, the goods to be returned and marketed outside. This would have been good business for our proposed $100,000,000 cotton trading corporation, which seems to have been abandoned like so many good resolutions.

There are plenty of good securities in England and on the continent which can be bought. The new five per cent. British Victory bonds can be bought by Americans by means of exchange at ten per cent. under the British market. An incident of the time has been the sale of 750,000 shares of the Shell Transport and Trading Company, a prosperous Dutch-English oil company in this market at a price which realized some $20,000,000. Transactions of that kind help the exchange situation, and perhaps will supply the remedy needed. The situation calls for a transfer of good securities and proprietary interests from all the countries which are on the debtor side of the exchanges to this country.

Tourists' Expenditures and Remittances by Friends.

Two important items in the situation possibly have not been taken fully into consideration, to wit: The expenditures by American tourists when Europe is freely opened to travel and the amounts carried back by returning emigrants and remitted by foreign-born residents of this country. The aggregate of these sums certainly will be very large. Travellers and the movement of home-going steerage passengers promise to tax the transportation facilities.

Germany has a great economic resource in this country in the great body of thrifty, well-

to-do people of German birth or extraction. They will send millions to relatives in the old country, and once the financial situation over there is cleared so that it is seen that Germany will have a chance to work out her salvation, undoubtedly there will be a market here for her securities.

Gold Movement.

One recent development is the action of the British authorities in releasing the South African gold product from control, allowing the producers to dispose of it as they please, instead of being required to turn it over to the Bank of England. They can send it to the United States and sell drafts against it in London at a premium of 10 per cent above the mint price. This will help them out against the great rise in mining costs. Australian producers have been granted the same privilege. It would seem to be likely that the Canadian government will do the same for its producers. The output of the South African mines is now about $14,000,000 per month.

It is not improbable that the neutral countries of Europe may release gold to the United States. They accumulated abnormally large reserves during the war, and it will be profitable at present exchange rates to let some of the metal come here. Indeed, the United States under present trade conditions is a pit toward which all the loose gold of the world will be draining.

Exports of gold from the United States have come practically to an end, after aggregating a little over $100,000,000. The dollar has been brought up to approximately par in the countries where for a time exchange rates were against it, to wit: Argentina, Spain, Switzerland and Japan.

The German Situation.

Trade with Germany is again free, but little as yet is doing from the United States. It had been expected that a cotton movement of important proportions would begin at once, but it has not materialized. Rumors are current of negotiations for large credits, but they are nebulous.

The Scandinavian countries and Holland are closer to the situation, and the first German trading is naturally with and through them. It will take some time to determine just how the German situation is to be managed in view of the indemnity requirements and the drastic schemes for levies upon capital which are proposed. The Government has claims which come ahead of creditors, and the Reparation Commission has a first claim on the Government. There is a common interest however in supplying German workshops with raw materials and in giving employment to the German population. Evidently no indemnities will be paid otherwise. The German people must have opportunity to live and work out the obligations they have assumed.

H. B. Fergusson, an expert adviser to the British military governor at Cologne, is quoted in a London paper as saying that he had met many heads of British industries in Cologne, all wanting to sell something in Germany, but, that no one seemed to realize how Germany was going to pay for the goods. He is quoted, further:

> "There is no doubt that Germany wants such goods, but they do not know themselves how they are going to pay for them. We must realize somehow or other that we must use the workmanship of German people to pay for what we have to sell to them. They have no raw material whatever; only a little potash, and in that industry the French wish to promote their fields in Alsace and Lorraine. In dyes we have bound them up hand and foot and they can hardly move, and in regard to coal they have no more than they can use for themselves."

He spoke of the low rate of German exchange as aiding German efforts, saying:

> "Rails are going into Holland at £8 sterling a ton. The only way we can compete is to take those rails from Germany at £8 and tender on them. We must take German goods because one must realize that we cannot, unfortunately, go over there and sell things to Germany and take pounds sterling in exchange forever. Something in the way of goods must come out."

It is a weakness of business men in all countries that they do not readily see that the people whom they seek to make their customers must be prosperous and have an outlet for their own products in order to buy goods of others.

German Gold.

The gold holdings of the Imperial Bank of Germany have been considerably depleted since the armistice was signed. At the beginning of November, 1918, the holdings equalled about $630,000,000, and on July 24 they amounted to only about $275,000,000. Part of the loss represents gold sent to Belgium under the terms of the peace, and probably an important amount has gone to the adjoining neutrals in payment for supplies, but the large amount which has disappeared is not easily accounted for. London papers have said that much of it had been paid to the United States for food supplies, under the terms of the agreement of last March, but no gold of consequence has been received in this country from any quarter excepting about $18,000,000 from Canada in June.

International Conference.

For the purpose of awakening a general interest in the trade situation and spreading information on the subject, the Chamber of Commerce of the United States has arranged an International Conference, which is to be opened at Atlantic City on October 5. Invitations were sent to a number of European governments proposing that they appoint members to a joint commercial commission to attend the conference and make a tour of the country as the guest of the Chamber and its affiliated local bodies. The subject of discussion will be the part which this country can

play in the rehabilitation of Europe. Formal acceptance of the invitation has been received from the governments of Great Britain, Belgium, France and Italy, which assures success to the enterprise. The Secretary of the Chamber has gone abroad to complete arrangements.

This promises to be a notable event, and should accomplish much in aiding our people to a full comprehension of their relations to the world situation.

Financial Affairs.

The money market became a little easier in the latter part of the month. Call loans have ruled at 5½ to 7 per cent, time money 5¼ to 5½.

Wheat marketing has begun at a liberal rate, and in some of the farming districts bank deposits are rising, and country banks are buying commercial paper freely, but banks at the centers are having heavy demands for credit, for the industries and for general trade purposes. The "other loans and investments" (exclusive of loans on Government obligations) of 769 leading banks of the Federal Reserve system aggregated $10,891,032,000, on July 18, which compares with $10,561,604,000 at the end of May. Such a rise in the summer months is unusual.

The loans of the New York Clearing House banks on July 26 were $4,800,000,000 against the high mark $5,135,000,000, on June 14 last. They are about $500,000,000 above the figures of one year ago.

The consolidated statement of the Federal reserve banks for July 25 shows total earning assets, $2,482,558,000, about $45,000,000 above the previous week, but $47,000,000 under July 11. The holdings of acceptances bought in the open market have been steadily increasing, as a result of the high rates prevailing for call money. These attract money away from the acceptance market and this class of paper is obliged to resort to the reserve banks. Their holdings were $375,556,000 on July 25 against $183,650,000 on May 28. The total amount of bank acceptances outstanding is about $500,000,000, showing that the market at present is a very narrow one.

Stock exchange loans have increased considerably since the first of June, notwithstanding the high rates for call money. They have been provided, however, by outside money. The loans of out of town money on stock exchange collateral are the highest on record.

Conditions continue to point to a close money situation, and an expansion of loans in the fall months. The demands of business will be great, and the Treasury will be in the market with certificate offerings twice a month.

Treasury Finances.

The Secretary of the Treasury has given out a forecast of the operations of his Department for the current fiscal year in which he calculates that the regular revenues with the aid of the installments upon the Victory Loan will equal the disbursements. The disbursements will run in excess of the receipts, however, during the first half of the year, but should fall off rapidly after September.

The total amount of certificates issued in anticipation of the Victory loan, unredeemed July 22, was $1,394,777,500. The amount of certificates receivable for taxes issued since the first of June is $1,875,437,500. The Secretary does not think himself justified in issuing more of these against the tax payments yet to be made this year, and having issued $275,000,000 against the tax payments due March 15, 1920, he proposes to resume the issue of loan certificates on August 1st. These offerings, coming twice a month, will be each for a minimum amount of $500,000,000 until after September, when he anticipates that one-half of this amount in each offering will suffice.

Whatever funding is necessary to take care of the certificates will be done at convenient times into Treasury notes, and without any popular campaign.

Federal Reserve Discount Rates.

Considerations related to Government financing, having regard for obligations arising from the Fourth and Victory loans, and future borrowings from the banks, have influenced the Federal Reserve authorities against an advance of discount rates up to this time, and probably will deter them from any radical change before November, but there are reasons for believing that a small advance may be made very shortly, as an intimation of future policy. The Board is decidedly of the opinion that loans must be held in check and that after the needs which claim a consideration this fall a cautious working toward gradual liquidation must be marked out. Bankers will do well to plan their commitments accordingly.

General Business Conditions.

Judging by current trade and the demand for money and labor the country is in a most prosperous state. The situation is remarkable for mid-summer, when some slackening of activity, and of pressure for goods and money is usual. It is extraordinary when we recall the uncertainty as to prices and trade prospects which existed a few months ago, but illustrates how great a factor is confidence. The change is due to a re-establishment of confidence so far as the immediate future is concerned. Everybody is satisfied that a great trade is ahead for the remainder of this year, and they are now busy preparing for that. Beyond that the situation is not so clear, but the people who must buy goods now for next spring are generally feeling that they must go ahead upon the present basis and get ready for it, taking

the chances. They realize that sooner or later they will be caught by a declining market, but unless they want to go out of business they must be ready to do business, making the best of vicissitudes.

At present there is a cry from all parts of the country for goods. Prices on goods ready for delivery are a secondary consideration. Practically full employment and high wages in the industrial centers is an obvious factor but underlying that is the confidence and prosperity which pervades the agricultural districts, and back of it all are the enormous purchases which other countries are making here, as shown by the astounding figures for exports. It is well to know the source to which we are indebted for this trade, because it is not a source that can be relied upon to play so large a part permanently, and there is much in the home situation that is disquieting.

Agricultural Prosperity.

All agricultural products have advanced during the past month. Europe is taking hog products on a large scale, and live hogs are quoted at \$21 to \$23.25 in western markets. Cash corn is close to the \$2.00 mark, and new crop contracts, December delivery, are commanding about \$1.72 in Chicago. Good cattle have partially recovered from the recent slump. Trading in wheat futures was resumed in Winnipeg on July 21, opening at \$2.20 to \$2.25 for October, which has since sold up to \$2.45.

Wheat is being marketed rapidly in the southwest, and commanding premiums over the government price.

These high prices for agricultural products have largely to do with the great retail trade which the country is experiencing, and their further effects are to be seen in a land speculation which is fairly illustrated by the following dispatches:

Traer, Iowa, July 21.—In spite of the busy time land deals show no abatement. Many deals have been closed the past week and many more are stewing. The tendency is steadily upward.

One of the big deals of the week closed by the Taylor-Parker agency was the sale of the Charles McElihinney farm of 240 acres northwest of Dysart, and this illustrates the almost fabulous advance in the past three months. This agency sold this farm a few weeks ago for Ludwig Stepanek to Guy Monroe at \$265 per acre. Later it went to C. E. Lambert and Arthur Ewing at \$275. This week they sold it through the Taylor-Parker people at \$325, thus realizing a profit of \$50 per acre. And the buyers—Fred Wood and Herman Strahbehn—are not in the tenderfoot class. They know land, have made several profitable turns and after looking around felt they could do no better. The Taylor-Parker agency has this 240 acres again for sale, and it will doubtless be turned a fourth time at a profit before snow flies.

Waterloo, July 25.—When Con. Mahoney bought back his 160 acre Lincoln township farm for \$20 an acre advance, after having disposed of the place less than a year, some of the neighbors thought he was a poor financier. But listen to this:

Buying this farm back at an advance of \$20 an acre has been the means of netting Mr. Mahoney a gain of \$24,800, plus this year's crop—all within twelve months!

Mr. Mahoney sold the place a year ago for \$250 an acre. Last autumn he bought it back for \$270 an acre. Now he has sold the place to a farmer from Clutier for \$425 an acre, or a total of \$68,000. The land is very productive and the improvements are good.

A well-informed Des Moines banker is authority for the statement that the best class of Iowa farms had advanced in selling value \$100 per acre since March 1st. He is quoted as saying:

"I think I am safe in saying that Iowa bankers generally and henceforth will adopt a policy of discouraging the purchase by their patrons of Iowa land at anything above \$300 an acre.

"Deals in farms at fancy prices are flooding into banks these days. The bankers are beginning to worry about the effect. I am not certain that prevailing prices represent actual inflation; neither am I certain that, even in these days of high prices, Iowa land generally can produce sufficiently to make such investments wise."

The movement in farming lands and the great retail trade which is regardless of high prices are expressive of the same state of mind, and both get their chief impulse from the fact that Europe is below its normal food production.

The Crops.

The crops are good enough to bring the farmers a large return, but they are not the bumper kind wanted to fill up the bins everywhere and bring down the cost of living. Unfavorable weather when the heads were filling has affected all the small grains, and cut down the yields. The most notable report is from the agricultural department of Kansas, which in June estimated the wheat crop of that state at 229,000,000 bushels and now estimates it at 158,000,000 to 160,000,000. The estimates on spring wheat in the northwest are also lowered, and it looks as though the final figures might not exceed 1,000,000,000, against a May estimate of 1,250,000,000. The oat crop has been similarly affected. The corn acreage is short to begin with, farmers having gone in for wheat on account of the guaranty. The crop has been injured to some extent by drought and heat, and is in a critical state at this time.

The cotton crop has been having a hard struggle with wet weather and the boll weevil. The Watkins' bureau calculations indicate a crop of about 11,300,000 bales, which in view of the world's empty shelves and worn-out clothing will be a disappointment. The price is around 35 cents per pound.

Broomhall, the British grain authority, calculates that the world's crop of the grains this year will be ample for all demands, and an American expert from one of the leading grain houses of Chicago, just returned from a tour of Europe, reaches the same conclusion. The latter looks for some exportation of wheat from Russian Black Sea ports. There is probably enough wheat to go around, but not enough to bring stocks up to normal.

Leading Industries.

The iron and steel industry is not very well balanced at this time, some lines having all they can do while others are running light. Tin plate manufacturers are full of orders, while sheet mills, plate mills and wire mills are doing well. The production of pig iron is increasing. There is a good volume of foreign orders from all quarters of the world. Prices are firm in all products and higher on wire, nails, tin plate and some other lines. Copper is in better demand and the price has recovered from about 15 cents last spring to 24 cents, largely by the curtailment of production.

The textile mills have more business than they know how to handle. The output is reduced by the shortening of time to the 48-hour week. There is some talk of helping the situation by running more than one shift but it is hard to get labor enough to keep one shift full; moreover, several states do not allow women or minors to work at night, and much of the mill labor is of this class.

The strike which took place in June in the cotton industry of Lancashire, England, was settled by granting the employes the 48-hour week, instead of 54 hours, and a 30 per cent. advance in wages.

The woolen goods industry is in very strong position. The mills have plenty of business in hand for the remainder of this year, and have been cautious about entering into contracts for a longer period. There is said to be plenty of wool for all needs, but there is uncertainty about the supply of the better grades, and in this country nowadays everybody seems to want the best there is.

Building operations continue to develop, but costs are rising through demands for higher wages in the building trades and in building material industries. The lumber trade is better and prices are higher, with stocks lower and much talk of foreign orders. A considerable amount of public work planned early when unemployment was feared has been abandoned.

Disquieting Conditions.

Notwithstanding the promising outlook for fall business there is much that is unsatisfactory in conditions to one who looks beyond the immediate future. The unfavorable turn in the crops is the most serious. What is wanted above everything else to relieve the strain under which society is laboring all over the world is normal supplies of food and clothing materials. The costs of these necessities enter into all other costs. They are the basis upon which the whole industrial structure rests. Notwithstanding the calculations of experts that there will be a surplus of grain at the end of the present crop year, we have the fact that the change in crop prospects during July sent wheat up 24 cents a bushel in Minneapolis and nearly as much in Winnipeg, Kansas City and Buenos Aires. Flour has advanced about one dollar per barrel. Wheat in Argentina is practically on the guaranteed level of the United States, and the price of corn holds out no hope of cheaper meats. The cotton crop, due in part to a campaign for restriction, is inadequate. Clothing, as a result of higher prices for raw materials, shortened hours of labor in the mills and wage increases all the way up to the finished goods, will be dearer and the same is true of shoes.

These conditions afford no hope of lower costs or prices in any direction in the near future. But that is not all: another cycle of wage advances, carrying the general level above that of the war period, is under way, accompanied by demands for shorter hours, and often by agitation intended to hamper industry and reduce efficiency.

The Situation Abnormal.

We freely allow the justice of wage increases which are required to maintain the standard of living. We have held consistently that a decline in foodstuffs, which constitute the largest item in living costs, must lead the way in any movement to lower wages and general prices. The situation, however, is plainly abnormal and becoming more complicated and difficult of restoration to the normal state. The war caused enormous interruption of industry, which was primarily responsible for the change in wages and prices. The war is over but industry is disorganized and production has made but slight recovery in the countries most affected. It is impossible to accomplish a rapid readjustment of wages and prices backward to the former level, but it is important to keep in mind that the primary influence which brought about the change has passed away, and that as industry is resumed everywhere the tendency will have to be in that direction, rather than upward from the war level.

Allowance must be made for the existing state of credit inflation. It cannot be cured immediately; it can be cured only by industry and economy, the process of building up solid wealth under the top-heavy structure. After the Civil War the policy at first adopted of bringing the volume of circulating credit down to normal proportions was abandoned in favor of the policy of keeping that volume fixed while the business of the country grew up to it. The result was the same in the end, but the operation was spread over more time. To-day the production of gold is being reduced by the low value of gold as compared with commodities, and at the same time the consumption of gold in the arts is increasing. In short, gold is becoming more valuable as a commodity, than as money. The output of

gold in the United States in the current year will be nearly all taken by manufacturing jewelers, and mining men say that next year the banking reserves will be drawn upon by that demand. With gold growing scarcer and commodities more plentiful the tendency must be to a restoration of the old relationship.

The theory that wages and prices must be permanently higher in order that the situation of the wage-earning class may be improved begs the whole question. It is the old attempt to lift oneself to a higher level by pulling on one's own bootstraps. The condition of the masses cannot be improved by raising the cost of everything they consume, or by any policy that reduces the production of those things.

The Question of Social Justice.

The present movement, in which the various social groups are trying to raise prices on each other, has none of the features of orderly, natural progress. It is not the kind of progress which brings benefits to all classes, the timid, weak and uninformed as will the strong and aggressive. The advantages are all with the powerful, the highly organized, and those who happen to hold the most strategic positions in the social organization—the positions which correspond to the mountain passes and river crossings of the middle ages. Without criticising those who are striving only to hold their own in the struggle, this is not social justice.

Thousands of wage-earners and salaried people are not able to hold their own in such a struggle. Note the position of the great army of school teachers and public servants. The traders and business classes can usually take care of themselves, but the class of people who have avoided risks and put their savings into savings banks or bonds and mortgages, or building and loan associations or life insurance policies—any investment which has promised a limited and safe return—are the victims. The retired farmer or business man, who for the sake of safety has converted the accumulations of a life time into a low interest bearing mortgage, finds the purchasing power of his income cut in two. The widow whose inexperience and timidity restricts her investments is in the same class. Is the doubling or trebling of farm products and farm lands while the mortgages on them are thus depreciated, in the interest of justice? The public utilities are almost in a state of financial ruin. Investment in the transportation business has practically ceased, and the holders of railroad stocks and securities do not know what the future has in store for them.

These conditions do not furnish the basis for a state of permanent prosperity.

Readjustment Must Come.

We do not say the situation is critical, for the outlook for the immediate future is good, but the tendency to higher levels is not to be welcomed or regarded with satisfaction. It only means a longer distance to travel on the return, and greater disorganization and confusion in retracing it. This is a time when the common interests of the community will be served by patience, forbearance, cooperation and a spirit of social loyalty and patriotism. There is need for loyalty and patriotism in the management of community affairs as well as in fighting a foreign enemy.

Modern society is a very complex and highly organized affair. It has become so because as population increases it is necessary that industry shall be specialized and made more productive. It takes on the form of a great cooperative organization, in which each person does some one thing for the common welfare, exchanging his services for the services that all the others render to him. Each one owes loyalty and fidelity to the organization. They are all exchanging day's works. The organization is far from perfect, but nobody planned it as it is; like Topsy, it "just growed," and nobody has the power to make it suddenly different. At this time there is disorder and confusion which cannot be immediately remedied but everybody can help by doing his honest best in his own work. If each one will do a little better, the whole organization will do better, the production of common comforts will be greater, and social progress will be faster. On the other hand if every one tries to do less and to make all the trouble he can, this highly organized social machine can be made almost helpless. There is no need for any group of people to demonstrate that it has the power to cause mischief; that is conceded.

The Twentieth Century Limited represents the highest development in transportation, but anybody can wreck it. It is possible for a small minority of the people to embarass the entire body, but they cannot benefit themselves.

The time is an extraordinary one in history. The world is desperately in need of production. It is no time for radical innovations which increase the disorganization and diminish the output. It is a time for emphasis on the fundamental truth of the social order that the best results for every class are to be had by policies which increase the total social product.

The Bond Market.

During the first two weeks of July the bond market was dull with a tendency toward lower prices. During the latter part of the month, however, prices became firmer with more active trading and bankers reported a large over-the-counter business. The interesting feature of the month's business was the large distribution of new issues among individual investors, the aver-

age order in one large issue being $2,500. Among the smaller institutions there was a wider inquiry for investment bonds than was evidenced during the preceding month.

Railroad bonds remained about stationary, apparently awaiting the formation of a more concrete opinion regarding the return of the properties to private ownership. Majority opinion seems to indicate a return by the end of the year but until definite action is taken by Congress the prices of railroad bonds will probably show a slight variation.

In the public utility field the Federal Government is playing an important part through its investigation and proposed relief for traction companies. It has been suggested that during this period of high operating costs the traction companies be relieved of a portion of their federal and state taxes. The New York State Court of Appeals has handed down a decision authorizing increased fares on surface lines when present revenue is found inadequate, notwithstanding that the franchises provide for a limited fare.

Foreign government bonds have been somewhat soft during the month and a number of new issues are under discussion at the present time. Bankers identified with the flotation of new foreign issues have commented upon the large number of subscriptions received from business men and corporations generally. The last two issues, $30,000,000 Government of Switzerland 5½% Bonds and $25,000,000 Swedish Government 6% Bonds, were over-subscribed and the attitude of American investors indicates that in the purchase of these foreign loans they realize that they are promoting the general prosperity of the country, as the proceeds of these issues are used in the purchase of goods for export and foreign exchange is thus stabilized.

Despite the large volume of new offerings of municipal bonds the demand continued active with firm prices. Several states and counties have voted new loans for extensive road building and it is probable that the market will absorb the higher grade municipals as long as federal taxes remain at their present level.

It is estimated that during the month of August $24,764,000 industrial bonds will be called for payment, anticipating final maturities, as compared with $7,720,000 called in July and $17,715,700 in June. This indicates the sound condition of our industrial corporations in their ability to liquidate their funded obligations before maturity.

It is interesting to note that since the first of the year the total amount of the more important issues financed in this country is as follows:

Municipal and Foreign Government..	$568,634,000
Public Utilities	292,005,000
Industrial	201,940,000
Railroad	200,657,000
Real Estate	9,800,000

The combined average of forty active issues as reported by The Wall Street Journal on July 30 was 84.22, compared with 85.30 on June 30 and 83.19 on July 30, 1918. A complete list of issues in July will be sent upon application.

Shibusawa as Arbitrator.

The United States Government is having thirty vessels built by contract in private shipyards in Japan, at a cost of $43,023,750. It is necessary to have an arbitrator in Japan to whom any disagreements between the official representatives of this government and the contracts may be referred and the United States Government has named Baron Shibusawa to act in that capacity. The Baron has expressed himself as feeling that he is honored in the appointment, and indeed it was a graceful and fitting token of esteem and confidence. Baron Shibusawa is one of the grand old men of Japan, a leader in the progress of his country, a good friend of America and one whose influence may be counted upon always for the maintenance of just and amicable relations between his own and other countries.

French Industry and Finance.

In a recent issue of this BULLETIN, we referred to the purpose of the statesmen and economic leaders of France to revive and intensify national production as the essential solution of her after-the-war problems. One is impressed by the great constructive effort which is now going forward there. Not only the Senate and the Chamber of Deputies, but the business associations throughout the country are rapidly putting into effect a number of practical measures which will develop all sources of the nations economic power. The introduction of the eight-hour day inevitably caused a considerable dislocation of industry, and the high cost of living is an added complication. But a wide campaign in the press, frequent conferences between employers and workmen, and the robust common sense of the people of France, point toward a satisfactory solution of these questions.

French Exports.

A notable effort is being made to increase the export trade of France. Recent legislation endows the National Bureau of Export Trade with additional resources and powers, and the associations occupied with the leading branches of production have organized an important federation to co-operate closely with all governmental agencies. The return of Alsace and Lorraine will permit France to export potash and other products of the soil, as well as steel and textiles. Particular attention is being given to aiding the small merchant and manufacturer to profit by this new development of export commerce. As we have observed on a number of occasions, France can only improve the state of her ex-

changes by sending larger quantities of goods to other countries and by obtaining credits from other nations for raw materials to nourish her own factories, and we regard this comprehensive programme for the development of her export commerce as most significant. France will find in the United States an important outlet for her merchandise, which by reason of its workmanship and taste, does not encounter any real competition.

The Coal Problem.

France faces a problem in the question of the coal supply. Before the war, she imported this commodity largely from England, Germany, and Belgium. The peace terms have put at her disposal the coal of the Sarre valley, but the output at present is only about 200,000 tons a month, just enough to supply the industries of the Sarre region itself and the needs of Alsace-Lorraine. England formerly exported about 80,000,000 tons annually, but this will be cut in two by the mining and industrial situation in Great Britain, and France cannot count on an adequate supply from this source. Today English coal, f.o.b. English ports, costs about 125 francs ($25) a ton, and it is believed that, at this figure, and with America's largely increased maritime capacity, a considerable quantity of our coal can be exported to France. In fact, France is counting on us to supply her with this indispensable agent of production. It is probable that a considerable levy will be made also on the German supply. The Germans destroyed a potential production in France, of 20 million tons annually, and France imported about 7 millon tons from Germany before the war. England sent France 1,500,000 tons in June, and Belgium is contributing about 350,000 tons a month, but the deficit will be large, and France looks to us to make it good.

In this connection, we may refer to the comprehensive programme of legislation which is now being enacted in France to develop the waterpowers throughout the country, which will supply not only countless factories with motive power but will be an important agent in agricultural production. For generations, in fact since

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JULY 25, 1919.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates	4,480	168,481	624	33,336	2,239	7,903	23,911	3,106	8,404	[illegible]	9,312	8,637	270,601
Gold Settlement Fund F.R. Board	52.212	160.932	48.527	46.878	25.550	[illegible]	101.590	25.153	[illegible]	38.973	9.840	[illegible]	[illegible]
Total gold held by banks	56,692	329.413	49,151	80,214	27,789	24,901	125,501	[illegible]	38,100	39,141	19,152	[illegible]	[illegible]
Gold with Federal Reserve Agents	59.163	287.952	70.576	119.522	[illegible]	44.199	[illegible]	[illegible]	[illegible]	30.770	[illegible]	[illegible]	1.108.051
Gold Redemption Fund	14.481	24 829	11.578	2.137	6 664	5 600	35 296	3.971	6.403	10.202	2.925	880	124.967
Total gold reserves	130,336	642.194	131.305	201,873	65,316	74,700	426.828	[illegible]	78,163	[illegible]	[illegible]	133,166	2,095.151
Legal tender notes, Silver, etc	7.505	47.691	156	898	524	1.324	953	4.218	61	304	1.892	346	[illegible]
Total Reserves	137,841	[illegible]	131.461	202,771	65,840	76,024	427,781	97,517	78,224	80,417	[illegible]	133.512	2,161,023
Bills disctd: Sec. by Govt. war obligations (a)	134.001	649.147	170.366	103.063	82.053	78.916	191,632	49.858	[illegible]	[illegible]	[illegible]	45.518	1.616.210
All other	6 570	68,746	19,881	11.463	13,916	12,579	24,313	10,950	4,095	44.930	20,978	12,971	[illegible]
Bills bought in open market (b)	26.971	91.497	719	56.139	7.868	6.992	56.016	[illegible]	24.058	2	382	96.039	375.556
Total bills on hand	167,542	[illegible]	[illegible]	170.665	103.837	98,487	271.961	[illegible]	63,321	[illegible]	[illegible]	[illegible]	2,243.158
U. S. Governm't Bonds	539	1,257	1,385	1,083	1,234	376	4,477	1,153	116	8,867	3,966	2,633	[illegible]
U. S. Victory Notes	[illegible]	[illegible]	1			[illegible]			211				286
U. S. certificates of indebtedness	21.436	[illegible]	24.812	18.358	7,410	10,479	[illegible]	17.068	6.969	7,342	5.900	[illegible]	[illegible]
Total Earning Assets	189.535	869 699	217,164	190,106	112.481	109,348	303.050	87,902	70,617	100.034	[illegible]	163,801	[illegible]
Bank premises	800	[illegible]	500	875	416	459	2,936	[illegible]		401	307	[illegible]	11,784
Uncollected Items (deduct from gross deposits)	57,171	171,890	60,502	55,980	51,781	[illegible]	81,749	48.046	12,885	[illegible]	19,726	[illegible]	[illegible]
5% redemption fund against F. R. bank notes	1,015	2.038	1,200	897	448	520	1.682	803	394	[illegible]	436	[illegible]	10.613
All other resources	341	2.351	755	936	1.025	379	1.455	501	196	447	583	929	9.898
TOTAL RESOURCES	386.703	1,739.871	411.582	[illegible]	[illegible]	217.674	818.653	235.460	162.316	241.917	[illegible]	339.016	5,366.371
LIABILITIES													
Capital Paid in	6.877	21,477	7,653	9,255	4.227	3.257	11,561	3.930	3.020	[illegible]	3.277	[illegible]	83.317
Surplus	5.206	32.922	5.311	5.860	[illegible]	2.805	9,710	2.589	[illegible]	3.957	2,029	4.578	81 087
Government Deposits	7,190	28,872	8,992	7,530	6,270	10,023	17,792	[illegible]	4,212	[illegible]	7,198	6,655	[illegible]
Due to members—reserve account	107.391	691.244	101.330	133.510	54.682	[illegible]	247.905	[illegible]	[illegible]	78.072	45.023	91.232	1,718.396
Deferred availability items	52 859	123.628	53,934	50.378	45,049	22,285	65,791	34,214	10,444	37.965	14.093	19.598	535,178
Other deposits, including foreign Govern't credits	7.070	50.412	8 170	7.964	4.563	3.773	12.860	4,842	2.848	4.623	2.520	7 799	117.414
Total Gross Deposits	174,513	902.156	172,366	199,382	110,564	84,427	344,348	107,739	[illegible]	127.266	[illegible]	125,284	2.487 056
F. R. Notes in actual circulation	[illegible]	739,165	201,693	218,794	[illegible]	116,835	423,393	[illegible]	[illegible]	[illegible]	46.557	195,328	2,504,497
F. R. Bank Notes in circulation, net liability	18,209	[illegible]	[illegible]	17,147	6,936	9.760	[illegible]	15,874	[illegible]	13.669	8.278	7.549	[illegible]
All other Liabilities	1 417	[illegible]	[illegible]	1.127	[illegible]	590	1.808	599	488	1.075	738	1.296	16 565
TOTAL LIABILITIES	386.703	1,739.871	411.582	451.565	231.991	217.674	818.653	235.460	162.316	241.917	129.623	339.016	5.366.371

(a) Total Reserve notes in circulation, 2,504.497.
(b) Bills discounted and bought: U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,623,982; 16—30 days 189,187; 31—60 days [illegible]; 61—90 days 203 627; over 90 days 178 611. Total 2.455.186.
Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 50.2%. Ratio of gold reserves to F. R. notes in actual circulation after setting aside 35% against net deposit liabilities—61.2%.

the time of Napoleon, it has been recognized that the streams of France presented immense opportunities for exploitation, but the acute need of power has never before been so strongly felt, and all obstacles to a nation-wide hydro-electric development are being removed.

Export Trade Bank.

The banking system of France has often been criticized by Frenchmen for the facilities extended to French exporters, which many deemed inadequate, and Germany and England have been held up as models in this respect. The Minister of Finance and the Minister of Commerce have recently brought forward a proposal to create a National French Export Bank. If the bill becomes law, the Bank will have a capital of 100,000,000 francs, and will have an annual subvention from the State up to 2,000,000 francs. The government will advance without interest 25,000,000 francs as a special reserve account, and the annual subvention will cease as soon as the Bank is in a position to pay not less than 7 per cent. on its capital stock, or as soon as it has built up a reserve equal to the special reserve guaranteed by the Government. The bank may have headquarters in Paris, but cannot establish branches in France, although it may have them in foreign countries. The government is to receive 30 per cent. of the profits until the Bank creates its own reserve, as specified above, when the government receives only 20 per cent.

Savings bank and other bank deposits have shown a remarkable increase in France in recent months, and the revival of commerce has produced an immense increase in tax receipts.

American Credit Wanted.

From the parliamentary debates and from the articles in the French press, it is clear that France expects our financial cooperation in time of peace and reconstruction as she had our military cooperation during the war. Her war debt is a great burden, and no country is so placed as our own to help her carry it. The financial writer of the *Temps,* referring with approval to our exposé of the possibilities of America giving an effective aid to France says:

> All our Allies are giving their attention to the situation of France. We hope they will weigh our problems unselfishly. There is no doubt that many contracts will be made by private concerns, but let us hope that the allied governments themselves will realize that the nations which have fought together should not dissolve their union with the peace treaty, and that the cost of the war makes a grand total which each should bear in proportion to its resources. In the Entente group, there must be no vanquished. That would result, however, if the United States, who have become the creditors of Europe, should refuse their financial aid, especially to France, which, as the circular of the National City Bank of New York states, threw all her resources in the caldron of war without counting the cost. "The only solution for the economic problems of France is for American manufacturers to grant long time credits." This should guide the United States in its attitude toward our war debt. If the public credit of a country should be ruined, all private credit arrangements would fail, and even the advances made to France by the United States during the war would be gravely compromised.

DISCOUNT RATES

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to July 30, 1919.

Federal Reserve Bank.	Discounts other than trade acceptances.							Trade acceptances.	
	Secured by U. S. Government war obligations.			Otherwise secured, also unsecured, maturing within—				Maturing within—	
	Maturing within 15 days, including member banks' collateral notes.		Maturing within 16 to 90 days.						
	Secured by U. S. certificates of indebtedness.	Secured by Liberty bonds and Victory notes.		15 days, including member banks' collateral notes.	16 to 60 days.	61 to 90 days.	Agricultural and live-stock paper over 90 days.	15 days.	16 to 90 days.
Boston	4	4	4¼	4	4¾	4¾	5	4	4½
New York [1]	4	4	4¼	4	4¾	4¾	5	4	4½
Philadelphia	4	4	4¼	4	4¾	4¾	5	4	4½
Cleveland	4	4	4¼	4¼	4¾	4¾	5¼	4¼	4½
Richmond	4	4¼	4¼	4½	4¾	4¾	5	4½	4½
Atlanta	4	4	4¼	4¼	4¾	4¾	5	4¼	4½
Chicago	4	4¼	4¼	4¼	4¾	4¾	5½	4¼	4½
St. Louis	4	4	4¼	4	4¾	4¾	5½	4	4½
Minneapolis	4	4	4¼	4½	4¾	5	5½	4½	4½
Kansas City	[2] 4	4¼	4¼	4½	5	5	5½	4½	4¾
Dallas	4	[3] 4	4¼	4½	4¾	5	5¼	4½	4½
San Francisco	4¼	4¼	4¼	4¼	5	5	5½	4¼	4¾

[1] Rates for discounted bankers' acceptances maturing within 15 days, 4 per cent; within 16 to 60 days, 4¼ per cent; within 61 to 90 days, 4½ per cent.

[2] Applies only to member banks' collateral notes; rate of 4¼ per cent on customers' paper.

[3] Rate of 4¼ per cent on member banks' collateral notes.

Note 1.—Acceptances purchased in open market, minimum rate 4 per cent.

Note 2.—Rates on paper secured by War Finance Corporation bonds, 1 per cent higher than on commercial paper of corresponding maturity.

Note 3.—Whenever application is made by member banks for renewal of 15-day paper the Federal Reserve Banks may charge a rate not exceeding that for 90-day paper of the same class.

"City Bank Service."

WORLD-WIDE
INVESTMENT OPPORTUNITIES

WE search the whole world for securities which, in our judgment, are worthy investments.

For your August funds, 86 high-grade bonds and short-term notes are listed in our new Offering Sheet, all carefully selected from the world's most desirable financing.

At current prices, some yields range as high as 6% and even more. Many issues listed are exempt from all Federal Income Taxes. Among our current offerings are:

		Yielding about %
13	**U. S. Government, Federal Land Bank, and War Finance Corporation Bonds**	**2.00 to 5.00**
28	**State and Municipal Bonds**	**4.275 to 5.40**
7	**Foreign Government Bonds**	**5.50 to 7.40**
15	**Short Term Railroad, Public Utility, and Industrial Bonds**	**5.55 to 7.30**
12	**Railroad and Industrial Bonds**	**5.45 to 7.25**
10	**Public Utility Bonds**	**5.45 to 6.65**
1	**Realty Loan**	**5.50**

——*Send for Complete Offering Sheet*——

THE NATIONAL CITY COMPANY

Correspondent Offices in 50 Cities

THE NATIONAL CITY BANK OF NEW YORK
AND BRANCHES

CONDENSED STATEMENT — JULY 15, 1919

ASSETS

Cash on hand, in Federal Reserve Bank and due from Banks and Bankers & United States Treas.	$325,610,449.70	
Acceptances of Other Banks	29,409,797.47	
United States Treas. Certificates	29,949,000.00	$384,969,247.17
United States Bonds	24,160,280.99	
Loans and Discounts	492,329,976.27	
Bonds and other Securities	38,728,450.61	555,218,707.87
Other Assets		47,154,125.59
		$987,342,080.63

LIABILITIES

Capital, Surplus and Undivided Profits	$79,424,404.55
Deposits	841,163,994.39
Circulation	1,435,395.00
Bills Payable and Foreign Bills of Exchange Sold	24,062,720.29
Acceptances, Cash Letters of Credit and Travellers' Checks	28,257,415.88
Other Liabilities	12,998,150.52
	$987,342,080.63

1812

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, SEPTEMBER, 1919.

General Business Conditions.

GENERAL business conditions are not materially different from what they were a month ago, although the feeling as to the future is decidedly more conservative, as a result of the disquieting labor conditions and particularly the attitude of the heads of railroad organizations. It is generally recognized that the wage advances which are being demanded and granted on all sides are not accomplishing any permanent settlement, but probably making future conditions more difficult.

Payments through the banks in midsummer have been running much above the record for any season of a previous year. This is due in part to the highest prices on record, but it also signifies great activity in production and trade. The steel industry is up close to its capacity in many lines, although railway buying is light. Export selling has been on a good scale, although it would be much larger if the credit problem was solved. In practically all textile lines the demand exceeds production, and in woolen goods the manufacturers are naming their prices and allotting their product to their regular customers, who gratefully take what is assigned to them or beg for more. Resales are above manufacturers' prices.

The labor supply has reached a state of decided scarcity for women as well as men. The agricultural and fruit-growing districts, canning factories and all rural employments are bidding higher than ever before. The steamers for Europe continue to be crowded in their steerage accommodations.

The retail trade is on an enormous scale in every part of the country. Merchants are bothered to get the goods required to meet the demand on them, and all accounts agree that the demand is for goods of high quality. The trade situation controverts the claims that high prices are depriving any considerable portion of our people of the comforts of life. The situation seems to be that the buying power of the people has outrun the rate of production. They need to speed up the latter or save more capital for investment in productive equipment.

The crop situation is better than a month ago, as the corn crop which was then in a critical state was saved by timely rains and promises a larger yield than was counted on at any time earlier in the season, possibly 2,900,000,000 bushels. The hay and forage crops are excellent, so that the situation as to meat supply and dairy products is improved. The wheat yield is about the same as last year.

The Price Situation.

Following the signing of the armistice came several months of uncertainty about prices. The Government dropped out of the markets as a buyer, it was known to have large stocks of supplies which it would have to dispose of, the millions of men in the army were to be returned to industry and the war industries were to be demobilized; the general conclusion was that a fall of prices must follow.

The situation, however, was stronger than appeared. Retail trade continued heavy, and merchants had to buy quite freely in the spring. The European demand for foodstuffs raised prices for these commodities, and this made any general reduction of wages and of industrial costs in the near future improbable. As the situation became more settled, business revived, goods proved to be scarce and prices tended upward. Such a movement is cumulative, and by the first of June, stimulated further by good crop prospects, the country was in mood to buy everything from good clothes to automobiles, and all fears of a period of unemployment had vanished.

In June and July the crops were seriously hurt. Three hundred million bushels were marked off the wheat crop from the high estimate, the other small grains all suffered and corn was threatened with disaster. This development radically changed the situation as to the prospective food supply. Instead of having a surplus which would fill up the empty bins both here and in Europe, and bear the price, as a known surplus always does, it was evident that for another year there must be a close matching of supply against demand. Of course prices responded. In time of

threatened scarcity everybody wants to make a little more certain provision than when there is an assured surplus. Consumers do it and dealers do it, just as they all abstain from buying when there is a prospect that prices will go lower.

The June exports of the United States were on an enormous scale and this foreign buying had an influence on the markets, notably upon foodstuffs, leather and textiles. There was something like a scramble on the part of merchants to place orders for fall goods, and considerable extravagant talk about the prices which clothing and shoes would command next year.

Early in August came the demands of the railroad orders, couched in threatening language and suggesting the possibility of a strike which would shut down the transportation facilities of the country. Following in its wake was an epidemic of strikes, based upon the cost of living argument, the whole proceeding tending to promote excitement and ill-considered action.

It was probably desirable, in view of the fact that food must remain high for another year, that official action should be taken to supervise the situation, and thus give assurance that they will not be higher than the conditions make necessary. So far, however, the actual results of official activity are not important, and there is danger that the interference of a host of uninformed prosecutors may seriously disarrange the proper provision for next winter's supplies.

The most potent influence for lower prices is the assurance of a good corn crop.

The Labor Situation.

The labor situation is disquieting because the unrest which is prevalent tends to lower production, when the only possible remedy for the conditions complained of is in larger production. It is a trying time, a time which tests the sanity and patriotism of would-be leaders and groups. Every one who has any understanding of economic law and of social progress must be anxious that sober counsels shall prevail, and that the entire machinery of production shall be worked without interruption and with the highest possible efficiency to relieve the existing scarcity. This is no time for turmoil and strife, for class struggles or inflammatory speech. The men who have the qualities for wise leadership know that most of the troubles of society are due to the failure of people to understand one another, and they seek in times like this to quiet excitement and bring men together, rather than to intensify feeling and aggravate the disorder.

What is wanted now above everything else is work, steady, earnest work to repair the wastes of war and make good the shortage of necessaries and comforts which has resulted from the four years' interruption of industry. There is no other way to make it good. Nothing could be more certain than that such a shortage would exist at the end of the war, and no one could rightfully expect to escape all cost and inconvenience to himself. It is a time for the exercise of patience and reason. Conditions are undoubtedly trying for many people, but there is every reason to believe that they are temporary and will gradually right themselves as production is resumed. Indeed all precedents go to show that in the long run the wage-earning class will come out with permanent benefits. Their wages have had a large advance, and when general prices fall they will be in a better position than ever before.

Fair Play.

Modern society is necessarily co-operative. The population of this country cannot make a living as a primitive people, by hunting and fishing. They must supply their wants by means of organized industry, exchanging goods and services with each other. That kind of peaceful, progressive society is only possible upon the basis of respect and consideration for each other's rights. There must be an honest desire to give and take on terms that are mutually fair. The idea that the social groups shall take advantage of any strategical position which they may hold to get the better of each other is repugnant to the whole idea of co-operation, and in the long run no such advantage will be tolerated.

The employes of transportation companies, for instance, have it in their power to paralyze all kinds of industry, but their right to use the power which is thus accidentally in their hands cannot be admitted. They have a valid claim to just treatment, but the determination does not rest with themselves. They will certainly lose out in any conflict upon that issue, because the interests of no single group can ever be held superior to the rights of the whole community. The railroad men will always have the right to resign and go into other work, as thousands of low-paid Government employes are doing, but the right to conspire to tie up the transportation system is something different.

Position of the Farmers.

The farmers are at a disadvantage in any general scheme of guild industry, where the workers of each industry have the privilege of fixing their own compensation and terms of labor, but they are thinking seriously over the tendency to this state of things. They are developing ideas along the same line. The acreage in cotton is said to have been reduced 8 or 10 per cent this year by such propaganda, and the ominous feature of it is that the reduction was accomplished among the most intelligent and well-to-do class. There is arbitrary curtailment of production this year, both in raw cotton and in cotton goods, and the cost of cotton goods is enhanced to the entire population in consequence. What will be the

effect upon the cost of living of a general eight-hour day on the farms? Does organized labor advocate it?

It must be evident that group action of this character, intended in each case to advance the interests of a small section of the population without consideration for all the rest, is wrong in principle and will defeat itself in the long run, because all can play at the game. It tends to disrupt society instead of unite it, to produce antagonism and conflict instead of harmony and co-operation, although the latter embody the only policy that will improve living conditions for all.

Responsibilty for Social Conditions.

No group is justified in threatening to pursue a policy which is wrong in principle, and which would produce chaos if adopted by all. There is no justification under our form of government for threats against the government or against society. Each group is as much responsible for good government and for the wise direction of society as any other. The orderly participation of all is not only invited but enjoined as a duty, and no class has a right to say that some other class, or the government, must forthwith produce satisfactory conditions.

The plain fact is that neither the government nor any single class can do much to ameliorate present conditions. Nothing but greater production can give a greater supply of the things that everybody is wanting and threatening to fight for. The government has very little to do with production, and is chiefly active in hampering it. Production depends upon hard, steady work, and the full-time operation of machinery. When all classes recognize this and join hands to produce an abundant flow of necessaries and comforts, the blessing of abundance will descend upon this troubled world, and not before.

The Bureau of Labor at Washington has made a calculation of increased living costs from July, 1914, to July, 1919, and reports the average over the country at about 70 per cent. The labor organizations which are just now agitating most vehemently for more wages have already had advances to approximately cover this increase, or more.

Full Production Wanted.

It is a calamity to have lost 300,000,000 bushels of wheat from this year's crop as it neared maturity, but that was caused by weather conditions and could not be helped. It is bad enough to have losses that are beyond our control, without deliberately interrupting industry or reducing the production of anything that will serve human needs.

The number of spindles in the cotton mills of the United States increased from 33,657,000 to 34,184,000 in the year ended July 31, 1919, but the consumption of raw cotton declined 800,000 bales. The production of cotton cloth is falling behind that of last year month by month.

The eight hour day may be all right in the textile mills in normal times, but surely a better time for inaugurating it might have been found than when the whole world was short of clothing. The same is to be said with greater emphasis of the proposal of the anthracite miners to reduce their hours of work to six. Demands for higher wages are less to be complained of than curtailment of production. Wage increases cannot compensate even the wage-earners themselves for scarcity of these necessaries. Scarcity means that there is not enough to go around; somebody must go without. Scarcity is not only responsible for prices that are necessarily high, but for the profiteering. It gives the profiteer his opportunity.

Mr. J. R. Clynes, one of the leaders of the Labor party in England, and a member of Parliament by their votes, in a recent speech made this very point. He is reported at a summer school address at Oxford University on August 7, as follows:

> In a comparison between profiteering and decreased production he said that the workers could make no more lamentable mistake than to encourage under-production. "Scarcity of commodities is the opportunity of the profiteer. Scarcity may cause inconvenience to the rich, but it causes real and continued privation to the masses of the people whose purchasing power is limited. Some forms of profiteering can be punished by law, but workmen who deliberately restrict output or fail to accept any form of development which can make their labour more productive are punishing their own class without knowing it, and are imitating the profiteer, who thinks only of himself."
>
> If profiteering was conscious pilfering, continued Mr. Clynes, "ca' canny" was an ignorant act which inflicted little loss upon the favored classes, but the greatest loss upon the poor and those who earned low wages. It was only through the use of labor and economic resources in their highest and most efficient form that the nation could make itself equal to efficient competition by other nations or make up the arrears of the war. In pleading for that efficiency he pleaded also for a higher standard of life and a more abundant share of the world's goods for those who produced them.
>
> With the extension of the franchise the nation must face the fact that there existed a political force which would before long be capable of assuming the authority of government. How long that would be would depend upon how labor presented its programme to the electorate. It would not win the approval of the nation merely by giving shocks to the nation. The enormous new-found power, industrial and political, which the workers had acquired could be wasted by a reckless use of it in needless stoppages and strikes. If Labor was ever to think of itself as a controlling force in the nation it must cease to think of itself in the terms of class, as it had done hitherto. Working men could if they wished, be the governing class, and they would be the governing class as soon as they had convinced the nation that they were fit to govern well.

The Socialists of Germany understand better than ever before the necessity of emphasis upon production. The leading Socialist organ, *Vorwaerts,* is quoted as laying down in a recent editorial these proposals:

That workmen be paid according to the actual work done by them; that workmen must be made to understand that good pay is only obtainable in return for good work, and that capable workers must have the opportunity to earn, by greater application to work, more than the amount represented by a fixed scale.

When these proposals are adopted there is practically nothing left of Socialism as a distinctive doctrine. The whole subject is reduced to a practical study of how to determine relatively the contributions which individuals make to production. It will be an enormous gain to have common consent that emphasis shall be laid upon production. Throughout current discussion it is laid almost entirely upon distribution.

One Explanation of High Prices.

The City of New York has been conducting sales of foodstuffs taken over from Government supplies, for the purpose of giving some relief to consumers from the prevailing high prices. The Deputy Commissioner of Markets, Edwin J. O'Malley having this distribution in hand gives the following account of some of his troubles:

"I went to the East Twenty-fourth Street pier," he said, "to see how we were getting along unloading the barge. We are paying a big price for our trucks, and I wanted to be sure they were being kept busy. When I got to the pier I found the bargemen lying on the boxes, their rolled-up coats being used as pillows. The drivers of seven trucks were sitting half asleep in their machines.

"I asked a man on the barge what the trouble was. I was told that just as they were starting to work a delegate of their union happened along and told them they were not permitted to load the boxes on trucks. They could only put them on the pier. It was the job of another labor organization to get the food from the pier to the trucks.

"As the tailboards of the trucks extended over the barge, I pointed out that it was easier to load the boxes on the truck than to carry them around the truck and put them on the pier. Finally the men offered a compromise. They would load the boxes on to the tailpieces of the trucks, they said, but I would have to get men from another union to haul the boxes to the middle of the truck.

"I found the delegate of the proper union, who got the men who are permitted to load the trucks. We paid the barge helpers 60 cents an hour, I believe. The newcomers got a cent a box, and each driver and truck cost us $32 a day. After we got things under way it didn't take long to have a string of trucks running from the pier to the various schools.

"But I think I got one of the real reasons for the high cost of living. That is, the number of men who handle the various commodities before they reach the consumer. Just think, for one truck, a driver who can't do anything but drive, one man to put a box on the tailboard, and another to pull that box to the centre of the truck."

When the whole system of industry and distribution is laboring under difficulties like this, is it any wonder that prices are high? Mr. O'Malley's experience illustrate the daily troubles of a business man.

British Labor Leaders.

Labor conditions have been worse in Great Britain than here, partly because industrial conditions were not so good and partly because some of the influential labor leaders have belonged to the radical socialist group. In the United States the responsible labor leaders are not socialists, and are active opponents of the I. W. W. and Bolshevist propaganda. A large majority of the British labor leaders are likewise conservative, and opposed to revolutionary methods.

The Hon. William M. Hughes, present Prime Minister of Australia, came up in public life as a leader of organized labor. He has been recently in England, and on June 24th last he was the guest of honor at a luncheon given in London by a group of the most influential labor leaders of Great Britain. His speech was a good one, and more significant when the career of the speaker and the character of the company to which it was addressed was considered. The following is an extract:

The industrial heavens are all overcast with black clouds; the position of unionism, of organized labor, indeed, of society generally, is hedged about with very grave and complex problems. Unrest, not confined to the industrial sphere, but extending into every corner of human activity, everywhere manifests itself. The world is in convulsions—largely the after-effects of the frightful war in which it has been engaged these last five years. Wars and rumors of wars, strikes, discontent, unrest of all kinds are seen on every hand throughout the whole world. It would be foolish to deny that the outlook is grave. The masses are everywhere in a state of great unrest, their minds reflecting the conditions in which they find themselves, and in turn accentuating or rendering these more difficult by their acts and attitude.

When we ask in what direction or by what means we are to find a solution for the problems that confront us, how are we to avoid the dangers that encompass us about, we are overwhelmed with a babel of cries. * * *

Whether labor is to come speedily or at all into its kingdom, whether it is to be entrusted with the responsibility of government, whether it is to ensure for itself a place in the sun and a fair share of the goodly fruits of civilized society depends upon the ideals that animate it, and the methods by which it seeks to give effect to them. If it is to be animated only by a sordid materialism, then it can hardly succeed. It must prove itself worthy, it must lift society up to a higher level.

If the world is to be saved—if this dreadful sacrifice of blood and treasure expended in this war is not to have been in vain—force must give way to reason. Might to right. Labor may learn—as indeed all sections of society may learn—from the fate of Germany, which sought dominion over the earth by force at the expense of right and of justice, what will befall it if it resorts to similar methods. Yet, had Germany been content to pursue that policy of peaceful penetration which had everywhere met with such great success for another decade the substance of the world would have been within her grasp.

The foundation of the new England that is to be, which the workers were promised, the thought of which cheered them through the darkest hours of the great war, rest upon the production of more

wealth. High wages will not come from words, from Lenine or Trotsky or the pewter imitations in this country who were trying to fool those unfortunate people who turned a deaf ear to them during the war, but now look for a short way to a better world. For nearly five years the world has been engaged in the work of destruction. Like men who have indulged for a long period in riotous debauch, it has now got to turn with determination to the work of making good that which has been lost; it has to bear the burdens, grievously heavy, of this great war; it has to produce wealth in sufficient quantity to enable high wages to be paid. And these things can only be done by a recognition of the facts of life and of modern production.

Capital Accumulation Is Necessary.

Capital—whether it be controlled by the individual or by the state is not material from this standpoint—must have that return which is necessary to repair wastage and to ensure sufficient supply. The world cannot consume without producing. Labor cannot produce the maximum output without sufficient capital to ensure the most effective methods of production. Capital itself is the margin which consumption leaves over from production. The only way by which a sufficient amount of wealth can be produced to give those high wages that the workers are resolved to have is that capital in sufficiently large quantities shall be available to enable labor to produce in abundance.

In order that the workers of Britain may get that which they desire, the most up-to-date methods of production must be resorted to. And every man must be animated by that same spirit that carried the Empire through the great war. That man who produces to the utmost of his capacity is the citizen to whom the state and his fellows owed most. He who produces nothing, or as little as he can, is the enemy of society.

Two things that act and react on one another, and are both fatal to the development of that state of society which alone can create satisfactory conditions in this or any other country, are profiteering and the go-slow or the "ca'canny" policy. The profiteer is, as I see him, one of the most deadly menaces to any country. By his exploitation and his extortions, by his soulless disregard of the welfare of the individual and the state, he shares with the enemy, whose instrument he too often has been, the responsibility for Bolshevism. He is the most prolific cause of industrial unrest. He is the enemy of society, the breeder of Bolshevism. At all costs the profiteer must be repressed.

Supreme Effort Needed.

On the other hand restriction of output—and not only restriction of output, but that spirit of careless indifference to production—must be condemned, unsparingly. Those who counsel restriction of output are the enemies of labor, and if their counsels be heeded will surely lead it to destruction.

The workers have everything to gain and nothing to lose by increasing output. They are now powerful enough to insist upon their fair share of that which is produced. The more they produce the greater their share will be. The less they produce the less they will get.

Only by a supreme effort, in which all classes co-operate, can Britain hope to bear the crushing burdens of war and hold her own in the world's markets.

Our readers will recognize that if Mr. Hughes had set about making a speech for the express purpose of supplementing the arguments which this publication has been constantly presenting, he could not have made the statement more complete. Upon that platform Labor and Capital can get together and work for social progress. They may have disagreements over details, but if they keep the main purpose in view these will be adjusted without serious difficulty, because there will be no difference in principle.

The Foreign Exchanges.

The official figures for the foreign trade of the United States in the month of July show that exports were about $570,000,000, or $350,000,000 under the phenomenal figures of June, while imports at $345,000,000, were the largest for any month on record, nearly $50,000,000 above those of June and $100,000,000 above those of July, 1918.

The decline of exports and rise of imports is what might be expected with the foreign exchanges depreciated as at present, but these exports are still far above normal.

The exchanges went from bad to worse during the month, the pound sterling declining in the New York market on the 20th to $4.12¼, while Paris francs fell to 8.22 to the dollar and the Italian lira to 9.57 to the dollar. At these figures purchases were made which caused a rally, but the situation remains very unsettled. We reproduce herewith the table given last month, showing the mint par of foreign moneys, the exchange rate prevailing then and the rates on August 27:

	Unit Value	Ex. rate July 30	Ex. rate Aug. 27	Discount from mint par
Germany	.2382	.06250	.0500	79.0%
Italy	.1930	.1168	.1043	45.9%
Belgium	.1930	.1345	.1199	37.8%
France	.1930	.1370	.1250	35.2%
England	4.8665	4.3650	4.2400	12.8%
Switzerland ..	.1930	.1785	.1766	8.5%
Holland	.4020	.3775	.3712	7.6%
Denmark	.2680	.2225	.2175	18.8%
Norway	.2680	.2375	.2310	13.8%
Sweden	.2680	.2475	.2440	9.0%
Spain	.1930	.1930	.1910	1.0%
Argentine ...	.9648	.9615	.9625	¼%
Japan	.4885	.5080	.5100	Prem. 4.2%

We have discussed this subject in such detail from month to month, that we think even our non-professional readers must have a fairly clear idea of the demoralization which exists and the menace which results to the business situation. The trouble arises from the fact that our sales to foreign countries so largely exceed our purchases from them that they are unable to find the means of settling the balances. Even in July, notwithstanding the falling off in exports and increase of imports the balance was $225,000,000. The foreign buyer of American goods must convert his foreign currency or bank credit into American dollars, and when he must do so at the rates named above the wonder is that business continues in such volume.

An Inexorable Situation.

Some confidence has been expressed since the rally in rates from the low figures of August 20, that the bottom has been reached, but only the course of trade can determine that. The only comment that can be made positively is that the situation must come into an equilibrium. Our exports must decline, or our imports of goods and securities must increase. These low exchange rates operate both ways, making it very costly for Europe to buy from us and very cheap for us to buy from them. We can buy French goods or securities nearly 40 per cent cheaper than the French people can buy them, and on the other hand, what they buy here costs them about 40 per cent more, not counting freight, than it costs us.

Sales for export are already being affected, cotton notably. It is an interesting fact however, that the low exchange rate may be actually turned against us in the case of cotton and cotton goods. A British or German cotton manufacturing concern can import cotton from the United States and ship the goods made therefrom back to this country and make money on the exchange situation. The exchange charges on the raw cotton would be unfavorable to him, but on the finished goods they would be favorable to him, and of course the cotton is worth a great deal more, pound for pound made into goods than in the raw state. The exchange charges on his exports to this country would be calculated not only on the original cost of his raw material but upon the value of all the labor, dyes and other incidental costs which went into it.

Reports of large contracts taken by Americans for construction work in France are unconfirmed. The work is there to be done, but the question of how payment can be made is unanswered.

Excited Comment.

This situation naturally causes some excited and emphatic comment both at home and abroad by people who do not fully understand the difficulties and think a remedy should be provided forthwith. Europeans are astonished at the indifference we show to their necessities and our own trade opportunities, while our home critics usually content themselves with blaming the bankers.

Owing to the rise of prices, particularly of foodstuffs and clothing, in the last two months there has been a development in this country of the view that a curtailment of our exports would be beneficial. This is certainly a mistaken opinion. Our supply of foodstuffs is in excess of our needs and although prices undoubtedly would be cheaper if the foreign demand was cut off, we cannot wish that starvation and anarchy should exist in Europe in order to make food cheap here. We are not in such distress as that. Moreover, it must be considered that while a falling off in this great export trade would indeed bring down prices, it would also seriously effect trade and employment in this country. It is partly the direct exports of manufacturers and partly the great prosperity of our agricultural districts which are providing employment at high wages in our manufacturing industries. We cannot have it both ways, and there is every reason why we should do our honorable part in this world crisis.

Measures of Relief.

We regret to say, however, that little progress has been made during the past month in the development of any comprehensive plan for dealing with the situation. The Edge bill is making progress in Congress. It proposes to amend the Federal Reserve Act to permit the organization of corporations with not less than $2,000,000 capital to do ordinary international banking and also with powers to issue debenture bonds based upon foreign securities. This is good as far as it goes, but is there any assurance that such corporations will be promptly organized and develop the sale of securities fast enough to relieve the existing situation. Isn't this a diffusion of effort where a concentration of effort is required? We have leaned all along to the opinion that the needs of the situation were too great to be met by voluntary unorganized effort.

We discussed this situation in the May number of this Bulletin as follows:

> This is one of the great emergencies of the world's history, and the story of it will be told throughout all time. It will be to the lasting honor of America, crowning her achievements in the war with a greater glory, if this country will go to the limit of her ability not only in providing food for the starving but in helping these stricken people to start their industries and get upon their feet again. The first great want is relief for their personal necessities, but they need help to put them in the way of being self-supporting; otherwise there will be many years of prostration, with poverty, suffering, and disorder, the results of which will extend to the whole world. Considerations not only of humanity, but of self-interest should prompt this country to give all the help within its power. No part of the world can hope to have abundant prosperity when so large a part of the world is crippled and unproductive. All of these countries need not only food, but working capital, raw materials and machinery. Provided with these their recovery will be comparatively rapid, and eventually they will be able to discharge their obligations in full.
>
> Private credit is unable to cope with this situation. The needs are on too vast a scale, and the people of this country are too far away to take a large part in it as individuals. We may ring the changes upon foreign investments and some will be made, but the total will be far below the sums needed. There is only one way in which the resources of Europe can be pledged in such manner as to promptly command credit upon a great scale, and that is through governmental agencies, the foreign national and municipal governments, and even then the results will be inadequate unless supported here by the United States government.

It is generally agreed that it is unnecessary for the Government to participate largely, and undesirable, provided a general public interest can

be aroused, but some degree of Government participation has been regarded as necessary in order to create public interest.

We have received within a few days, a letter from a banker in a small town of Nebraska who rises to the occasion as follows. We publish it because we believe it indicates the response which a properly organized movement would meet:

MINDEN EXCHANGE NATIONAL BANK

Minden, Neb., August 11, 1919.

National City Bank, New York.

Gentlemen:

After reading your Circular for August, 1919, I could not help feeling that something of a substantial character, something immediate should be done, not only for our own protection, but to start the wheels moving in the different foreign countries.

The Banks cannot finance this matter. The Government can do nothing further and an appeal to the people of our country I am sure if properly staged with the Liberty Loan organizations we have everywhere would scatter a good many billions among all the people and no one would feel it very much.

The people of the country do not understand the conditions and are expecting the Government and the New York banks to keep things moving, where if the matter was put straight to the people for a French, Italian, English or even German loan and they knew the conditions much could be done. Very little can be raised through circular letters and such people as you taking a few millions and reselling them. The people will not take much this way, but with a general Bond issue to all, with plenty of literature and plenty of work, it will go.

People are losing their heads in land speculation and promotion schemes which are of very doubtful value, and need something to divert them. Can't a thing of this kind be started and turn them in another direction? It is up to our country to do this thing and all the people will do it if given a chance and given the proper understanding of its necessity. You probably receive many suggestions of little or no value and this is probably one of them but I believe it could be put through.

Very respectfully,

GEO. P. KINSLEY, Vice-President.

Confusion of Counsel.

It is now two months since following the return of Messrs. Vanderlip and Davison from Europe, that a movement was inaugurated by the bankers of New York City looking to the organization of a wide-spread effort to provide funds for the financing of European purchases. The movement had scarcely begun to take form when opposition began to develop. The plan as contemplated would require countenance and approval by the Government, even though the latter did not participate to any large extent. Legislation would be required, and the development of opposition made it apparent that this could not be had readily and, in view of the present divisions in Congress, probably not without much delay.

The first criticism offered was that New York bankers had developed a scheme for involving the country in foreign loans from which they would derive large profits, and that the loans would be likely to prove a source of embarrassment in the future, probably requiring intervention by the United States Government in European affairs and perhaps the dispatch of an American army to enforce their collection. That such views were held by influential members of the legislative bodies was enough in itself to give a serious check to the movement, for the New York bankers have no disposition to press it in the face of that kind of opposition. Evidently the situation is not understood, and it cannot be effectually dealt with unless it is understood.

The Profits of Exchange.

As the activities of New York bankers in this matter have seemed to slacken, and as the exchanges have continued their course downward, another species of suspicion and criticism has developed. The bankers are said to be making, or in the way of making, a great deal of money out of the decline, and therefore to be indifferent about any corrective action.

If the interests of the bankers in this matter were opposed to the public interest, and they were disposed to sacrifice the public interest, their natural policy apparently would be to keep quiet about the situation, but they have pursued the opposite course. The New York banks have been sounding a warning about the exchange situation for months. Ever since the armistice was signed this Bulletin has been largely devoted to an explanation of the pending and threatening exchange situation. It is difficult to conceive how the bankers could have done more to arouse public interest in the problem. They have given notice over and over again that the situation was menacing to the export trade and the general business situation, and that it was beyond their control.

Profits Offset by Risks.

As to the profits of doing business in such a situation, they are such as arise from a state of uncertainty in trade, where losses are quite as common as profits. Good business men may be successful under such conditions, but they do not prefer to do business under such conditions, or take any risks that they can insure against. One theory which seems to be current outside of the banking business is that the banks have accumulated great sums of foreign credits on the downward movement, from which they will make large sums when the upward movement comes. It is evident that up to this time all such ventures have been losing ones; the profits are not to be had until the exchanges rise, and meantime the bankers who have made such investments on a large scale must be having an uncomfortable time.

The banker is a dealer in exchange. He seldom creates it, particularly in such a situation

as the present. He tries to buy and sell at a profit and to keep his position hedged as closely as possible. To suppose that he goes long or short in large amounts in order to take advantage of long swings in the market assumes that he will take chances which a prudent banker avoids. It would be like buying grain or cotton without hedging, and a dealer in grain or cotton loses his bank credit when he is known to follow that policy.

Current Fallacies.

The idea that somebody has bought and now holds in this market a great amount of current European bank credits is a fiction of the imagination. If anybody wants to take advantage of low exchange, a better investment would be in foreign securities. French, Italian, Belgian, German and British securities will pay a very high return while carried, besides the profit to be gained by the return of exchange rates to normal. But bankers cannot properly tie up their resources in that manner.

The current confusion in the minds of the public about exchange is illustrated by the fact that because the National City Bank has branches in a foreign country, the suggestion is sometimes made that it is in position to sell exchange on that country to any extent at normal rates no matter how high the market rates may be. If the balance of trade between the United States and Argentina runs continuously in favor of the latter, as it did for a long time during the war, the Bank in New York cannot draw continuously upon its branch in Buenos Aires, without providing the latter with the means to replenish its reserves. In other words the Bank in New York must buy exchange on Buenos Aires to offset what it sells. Otherwise its entire capital in Buenos Aires will be transferred to New York, and the Buenos Aires office will be out of business.

The Fundamental Fact.

The fundamental fact about the exchanges is that they are dependent upon the trade and payments between countries. Unless the latter are nearly enough in balance to settle themselves within a short period, exchange rates are bound to reflect the fact by considerable fluctuations. Indeed they are not only unavoidable as a result of unbalanced trade, but necessary to hold trade in balance and to bring it back into balance and prevent the banks from being overloaded with undesirably extended credits. If the trade does not come into balance within the ordinary periods of bank credits, settlements should be made by investment credits. For this reason a Government foreign exchange bank would afford no remedy for fluctuations in foreign exchange. Unless the Government is prepared to use its credit to an unlimited extent it can exercise no control over such fluctuations, and even then the operations would call for the exercise of discretion to a degree which should not be vested in public authority.

Gold Imports.

As yet no results are apparent from the action of the British Government granting permission to the South African gold producers to sell their current production in the best market. The natural thing for them to do seemingly is to send their gold to New York, and sell drafts against it in the London market. With sterling at $4.20, they would realize about 13 per cent more for it than the coinage value in London, less the extra cost of transportation, and this would help considerably in meeting the higher costs of production under which they are laboring.

Scarcely anything is being said about one of the biggest gold transactions of history, just now in progress, which is the transfer of $102,000,000 in gold from the Reichsbank, the Central bank of Germany, to the Federal Reserve system of the United States, in payment for shipments of food made in recent months by the United States Food Administration. This is equivalent to an importation of the above amount of gold. It has already been received by the National Bank of Belgium and the Bank of the Netherlands, and may be expected to appear shortly as a credit at the Bank of England. Just how it will be handled thereafter remains to be seen, but it will be eventually distributed to the several reserve banks which participated in the advances to the Food Administration.

The effect of the receipt of this gold and of any importations from South Africa will be to raise the percentage of reserve in the Federal Reserve banks. Presumably, however, the Federal Reserve Board intends to keep as tight a rein on credits as practicable, and these additions to the gold stock will have no influence on current banking conditions.

The Railroad Problem.

It is now clearly recognized that the re-establishment of railroad credit is the heart of the railroad problem. Modifications and improvements in the machinery of regulation, necessary as they are, will prove futile unless requisite measures are also taken to make the field of railway enterprise inviting to capital.

Early in August the National Transportation Conference submitted to the Committee on Interstate and Foreign Commerce of the House of Representatives a new program for remedial legislation concerning the railroads. The Transportation Conference was called into existence by the Chamber of Commerce of the United States and its program contains the best thought of a body of able men representing a wide variety of interests. That part of the plan particularly aimed to strengthen and

stabilize credit proposes that Congress adopt a statutory rule of rate-making requiring the Interstate Commerce Commission to establish rates designed to yield the carriers not less than six per cent. upon the aggregate fair value of the properties.

No Guaranty to Individual Companies.

This plan, it should be observed, does not contemplate a guaranty to individual railroads (which would doubtless be fatal to efficiency) but simply provides for a level of rates which will yield a reasonable return on the property of all the roads grouped in the three major traffic sections of the country. Under this plan some roads would be able to earn more than six per cent. and many roads less. The premium on good management and strategic location would remain. While the establishment of reasonable rates is a sine qua non for the restoration of credit, the program of the Conference goes further and proposes the creation out of earnings of general and individual contingent funds for the protection of credit during periods of commercial prostration. The Conference recommends that "fair value" shall be ascertained by the Commission by giving consideration not only to physical property but also to earning power and such other elements as may properly receive attention.

In the insistence upon the establishment of a statutory rule for rate making this plan bears a close analogy to that of the National Association of Owners of Railroad Securities.

A Statutory Policy on Rate-Making Required.

Rightly or wrongly the investor has lost confidence in the Interstate Commerce Commission and the situation requires definite instruction from Congress to the Commission as to what constitutes reasonable rates. Failure to adopt a plan to stabilize railroad credit at this time involves consequences of the most far-reaching character. The railway industry is so fundamental to the welfare of the nation that if private capital cannot be attracted to provide the necessary new facilities the Government itself must undertake the work. The country will then be forced into Government ownership of railroads at a time when the sentiment of the people is opposed to it, but as the English authority, Mr. W. M. Acworth, writes in the last issue of the *Quarterly Review*, "No country has ever nationalized its railways as a result of deliberately weighing the respective advantages and disadvantages of public and private ownership."

The Country Against Government Ownership.

The Chamber of Commerce of the United States, which represents commercial and trade organizations with a membership of 617,000 business men, announced on August 5th that complete returns of a referendum submitted to its members showed that 99 per cent. of the votes cast were opposed to Government ownership. Further indicative of prevailing sentiment is the statement of the National Grange filed with the House Committee that "the National Grange is opposed to Government ownership of railroads, especially opposed to the so-called Plumb Plan which seeks not only to have the Government acquire the railroads but then turn them over to be operated by a management in which the men who draw the wages will name two-thirds of the directors."

The Plumb Plan.

With the business and agricultural interests of the country opposed to Government ownership, the Railroad Brotherhoods announced their determination to secure it. This is greatly to be deplored because the character of the demand has created no little uneasiness in the minds of investors and injured confidence at a time when the best constructive effort should be employed to up-build it.

The Plumb Plan is the program of the Railroad Brotherhoods for securing Government ownership. It was first presented to the Senate Committee as long ago as last February but the people were scarcely aware of it. Its presentation before the House Committee in August was accompanied by alarming threats of the Brotherhoods' leaders indicating their intention to force the adoption of the plan at any cost. This plan proposes that the railroads shall be purchased by the Government and turned over to the railway men to be operated as a single system under a long term lease, with a board of directors of fifteen, two-thirds of whom shall be appointed by the operating officials and employes. Profits if any are to be divided equally between the railway men and the Government. The losses would have to be borne by the tax payer. If the experience throughout the world is any guide there would be no profits but huge losses under such a scheme.

Value of Railroad Property.

The advocates of the Plumb Plan claim that the public could buy the railroads for ten or twelve billion dollars in four per cent. bonds. Even on this basis the interest requirements would consume almost all of the net earnings which the roads are now showing. If the Government acquires the railroads their owners are entitled to be paid for their properties in cash. They cannot be compelled to accept a four per cent. Government bond at par as the equivalent of cash, and as Liberty bonds are already selling close to a five per cent. basis the increase in the debt consequent on the purchase of the roads would send the rate well above five per cent. unless the new issue were made wholly exempt from taxation.

But what justification is there for assumption that the railroads are worth only ten or twelve billions? Mr. Plumb apparently believes that there would be no injustice done to the owners because he estimates that the railroads are selling at about this figure in the markets to-day. The market value, however, has never been recognized as the sole standard for measuring the worth of a property. The railroads are capitalized at approximately eighteen billion dollars. On the other side of the balance sheet stands the property investment account, which Mr. Plumb considers worthless as reflecting the real value of the railways, but the Interstate Commerce Commission, while recognizing the imperfections in this account, has used it for years as a safe guide in determining the reasonableness of rates.

Furthermore, under the regulations of the Commission, since 1907 the property investment account has not been increased one dollar except as the result of one dollar of cash going into the property. The addition to the property investment during the period between 1907 and 1917 was very nearly five billion dollars cash.

The Commission's Valuations.

Mr. Plumb fortifies his charge of water in railroad securities by stating that "in the five railway valuations completed and published by the Interstate Commerce Commission the cost of reproduction new, including increased value of land and real estate is but 50 per cent. of the aggregate property investment accounts." This is a damaging assertion that requires answer.

The Bureau of Valuation of the Interstate Commerce Commission has published *tentative* valuation figures for four railroads and a final valuation for one. The final valuation has been made in respect to the Texas Midland, which shows a cost of reproduction new of $3,561,000, which compares with a capitalization of $2,112,000. The tentative valuations cover the Atlanta, Birmingham & Atlantic, Kansas City Southern, New Orleans, Texas & Mexico and Winston-Salem Southbound. Each of these railroads has been protesting the tentative valuations and the Kansas City Southern has carried a case to require the Commission to find the true cost of reproduction or acquisition of its lands to the Supreme Court. It is a fact that as to three of these roads tentative figures show a cost of reproduction new substantially less than the capitalization, but it is hardly fair to draw conclusions from these figures in view of the fact that they do not pretend to give a final value. Furthermore, even if the tentative valuations were correct, they cover only 1,840 miles of road and there is no warrant for the assumption that they are typical of the 260,000 miles in the country.

The Kansas City Southern.

It will perhaps not be out of place to indicate some of the grounds on which the roads are making their protests against these tentative valuations. The Kansas City Southern Railway Company, which owns 823 miles of road extending from Kansas City to the Gulf of Mexico, contends that the true cost of reproducing its properties should be $89,000,000. The figures of the Bureau of Valuation as modified by stipulations since the valuation was published show a cost of reproduction new, including land, of over $63,000,000. The Kansas City Southern protests against its tentative valuation because such important elements as the cost of materials and supplies and working capital are omitted, while nothing is allowed for adaptation and solidification, or intangible values, and no multiples are used in arriving at the cost of acquiring lands for transportation purposes. The company also protests because the Government has used June 30, 1914, as its valuation date. The use of this date is vigorously attacked by all the railroads as they claim with good reason that it was a time of exceptionally low prices. The Kansas City Southern furnishes interesting proof of this. Applying the prices of labor and materials of June 30, 1918, to the Government's estimates of quantities, etc. (which the company does not admit are correct) the cost of reproducing new this 823-mile railway would be not $63,000,000 but $110,000,000.

The par value of the capitalization of the Kansas City Southern is approximately $99,000,000, of which $48,000,000 is represented by bonds, $21,000,000 by preferred stock and $30,000,000 by common stock. It will be noticed that the capitalization is somewhat in excess of the company's own estimate of reproduction cost and quite a little greater than the Commission's estimate. The company's standard return, that is, the rental which the Government is paying for the use of this property, is about $3,500,000 per annum. This capital charge can hardly be considered excessive in view of the fact that it is less than 4% on what the company considers the value of its property and only slightly over 6% on what the Commission considers the property to be worth. No injury to the public is done by whatever excess capitalization there may be in this case, for the $30,000,000 common stock issue has never received any dividend and its market value during the twenty years it has been listed on the New York Stock Exchange has never exceeded 50¼, and is today under 20. This property was largely constructed with Dutch capital and it is understood that Dutch and Swiss investors still own substantial amounts of its securities.

Central of Georgia and Rock Island.

There has recently been completed another tentative valuation which demonstrates the unfairness of Mr. Plumb's charges. The Central of Georgia Railway is 1,962 miles long; this single road therefore has a greater mileage than the aggregate of the four roads heretofore tentatively valued. The Bureau of Valuation reports that the cost of reproduction new of this property, as of June 30, 1915, using prices as of June 30, 1914, exceeds $88,000,000, while the cost of reproduction less depreciation is $71,700,000. The capitalization of the company as of June 30, 1915, was $57,000,000, of which $37,000,000 was debt and $20,000,000 capital stock. The depreciated value exceeds the aggregate gross capitalization outstanding on the valuation date by approximately 20 per cent.

Within the last few days information comes from official sources that the Commission has placed a tentative valuation on the Chicago, Rock Island & Pacific Railway of $410,000,000, which is $64,000,000 in excess of its present total capital issues, including common stock. In addition to the valuation already allowed the company is claiming other elements of value aggregating $165,000,000. The valuation of the property is made as of June 30, 1915, since which date it has been estimated that there have been capital expenditures aggregating at least $17,500,000. Adding this amount to the valuation would give a cost of reproduction of $427,500,000, compared with $216,000,000 of bonded debt and $129,000,000 of capital stock, or total capital liabilities of $346,000,000. The valuation of the Rock Island covers over 7,500 miles of line.

Minnesota and New Jersey Appraisals.

The contention that the railroads, considered generally, are under-capitalized, not over-capitalized, is further supported by valuations undertaken by several of the states. One of the most exhaustive was the appraisal made by the State of Minnesota in 1907 to determine the value of 8,000 miles of main track in that state. This valuation showed an aggregate cost of reproduction new in excess of $411,000,000 and a cost of reproduction less depreciation of $360,000,000, while the share of the capitalization of these railroads apportioned to the State of Minnesota amounted to $334,977,000. It is a common experience that railroads must pay more than the going value of adjacent property when they acquire lands for transportation purposes, and in the foregoing estimate such allowances were made. As an example, the engineers found by actual experience that the railroads paid for property over and above its normal value an amount sufficient to justify the use of a multiple of 1¾ in the City of St. Paul.

A second appraisal was made in Minnesota omitting multiples and excluding allowances for solidification and adaptation. In this case the cost of reproduction new was $373,000,000 and the cost of reproduction less depreciation was $322,000,000. It will be seen that even the lowest figure is but slightly under the par value of the allocated capitalization. In making this appraisal the estimates were based on average prices prevailing in the five-year period prior to the valuation date.

In 1911 the State of New Jersey made a valuation of its railroads for purposes of taxation. A total of 2,012 miles of road was appraised. The value new was reported to be $351,000,000; the present value $343,000,000, contrasted with a capitalization of $357,000,000.

Railroads as a Whole Not Over-Capitalized.

Mr. Charles A. Prouty, Director of the Bureau of Valuation, in his suggestions for remedial legislation, includes the following statement: "The railroads of this country should be self-supporting. To this end Congress should instruct the Interstate Commerce Commission to establish such reasonable rates as will yield a fair return upon the value for rate-making purposes which it establishes. . . . The Supreme Court, as I understand its decisions, has held that the carrier is entitled to a fair return upon the fair value of its property provided it can earn this return under reasonable rates. The rates established must be reasonable and if reasonable, while some individual carrier may suffer, carriers as a whole will be given proper compensation. The value upon which this return would be allowed is that value which the Commission is now fixing under the Valuation Act of 1913." Mr. Prouty has announced that within the next two and one-half years it is probable that the Commission will have named the rate-making value of every considerable railroad property in the United States. The most well-informed men believe that these valuations when completed ought to show that, taking the railroads as a whole, their valuations will prove to be greater rather than less than their capitalizations.

The Money Market.

The call money had a period of relaxation early in the past month, but the general situation is very firm and the outlook is for a strong demand throughout the fall. Time money is six per cent. Call money in the latter part of the month ruled at five to six per cent. The decline of call money in the first half of the month caused a good deal of interior money to be withdrawn from New York and the Treasury calls on depositary banks have had a like effect. These calls for Treasury deposits were the principal influence in lowering the reserves of the Clearing

house banks slightly below the limit on the 23rd, as they reduced the reserves without reducing the amount of reserves required.

The deficit was of no importance, except as showing that there is no surplus lending power in New York except as resort is had to the Federal reserve bank, which bankers are inclined to avoid as far as possible.

Earnings assets of Federal reserve banks total $2,402,375,000 as compared with $2,408,086,000 on August 1. Member bank loans are at the highest point yet reached, $11,173,559, exclusive of those on government securities.

Second Pan-American Financial Conference.

Announcement has been made by Secretary Glass that upon his recommendation the President has decided to invite the countries of Central and South America to send delegates to the Second Pan-American Financial Conference, to be opened Monday, January 12, 1920, in Washington, D. C. The Secretary expresses the hope that the delegation from each country will be headed by the Minister of Finance of that country.

The first of these financial Pan-American conferences was held in May, 1915, the primary purpose to consider the financial problems created by the outbreak of the war. Now, after a lapse of five years, it is opportune to have another, to consider the new situation presented by the re-establishment of peace.

Since the adjournment of the Conference of 1915 there has been at work a permanent organization created by the Conference known as the International High Commission. This Commission is composed of national sections in each of the countries, headed in each instance by the Minister of Finance. This Commission has a central executive council, consisting at this time of the Secretary of the Treasury of the United States, Assistant Secretary of the United States Treasury, the Hon. L. S. Rowe, and the Hon. John Bassett Moore. This International High Commission will have an important report of progress to make to the Second Conference when it assembles.

Andrew Carnegie's Career.

Andrew Carnegie had a wonderful career, and now that he has passed from the scene and is separated from the great possessions which the public was prone to think of as monopolized by him, it is possible to form a more correct idea of the value of his services to the community. So long as he was here and held the legal title to his properties and had the disbursement of his great income, it was difficult to dispel the illusion that this wealth was exclusively his and ministered only to his individual pleasure and satisfaction and that of his dependents. The criticism that was directed at him while he lived showed that this was the common view. Since his death a kindlier tone of comment is apparent, partly, no doubt, because unfriendly criticism is modified by death, but partly perhaps from a realization that his achievements in the business world have been worth vastly more to the public than to himself.

While the common idea of business is that of a great game in which every one is playing to get the most he can for himself, with his activities limited by certain general rules, there is a larger purpose in it. That purpose is to satisfy the needs and wants of the population. Business is legitimate and worthy, as it tends in this manner to promote the general welfare.

Mr. Carnegie was a business man of genius. He had an original, constructive, managerial mind—the type which supplies leadership and finds new ways of doing things. The progress of society depends upon this kind of men. They tell and show other people how to do things. What they eat and wear out, and otherwise consume and devote to themselves during their lives is nothing compared with the increased production which results from their efforts. They raise the whole industrial community to new levels of productivity, new bases from which progress goes on after they are gone.

Mr. Carnegie's Contribution to the Steel Industry.

Mr. Carnegie devoted his business career to the development of the iron and steel industry. He disapproved, as advice to a business man, the counsel, "Don't put all your eggs in one basket." He considered that well enough for a mere investor, but his theory in business was to "put all your eggs in one basket and watch the basket." He put his energies into the steel industry, and put his profits back into that industry for its improvement and development, until he was ready to retire, and then sold out, lock, stock and barrel, excepting that he took well-secured bonds. While he was active in the steel industry he devoted himself and the earnings to its progress. After his retirement he drew the fixed income which accrued to him and gave by far the greater portion of it away for the education, advancement and enlightenment of mankind.

Mr. Carnegie led in the development of the steel industry. As stated, he withdrew practically none of the profits, but used them in experiments and improvements to increase the efficiency of steel-making methods. He had the qualities of a great executive in the selection of aides, and drew about himself a corps of capable and ambitious young men. He took many of them into partnership, and all the way down the line he stimulated invention, encouraged initiative and rewarded ability. Organization is a great factor in industry, and the Carnegie works were great for team-work. It may be doubted if there ever was another establishment so charged with the spirit of progress, so receptive to new ideas, so ready to scrap good equipment for something

better. So long as Andrew Carnegie was in the steel business his mind was centered upon reducing the cost of making steel; the profits which he made as he went along he regarded as means to that end.

Effects of Cheapening Steel.

There never was a period of reduction in the market prices of steel, and of development in the consumption of steel, like that period from the time Andrew Carnegie entered the business until he retired from it. Of course he did not accomplish it all; he had worthy competitors; there were contributors to the progress on both sides of the Atlantic; but it is not too much to say that he was the leader.

The effects upon all industry and upon social conditions and world affairs generally of this reduction in the price of iron and steel were very great. The uses of steel were multiplied and the consumption was enormously increased. Railway building was cheapened and stimulated, with the result that vast areas of new territory, not only in the United States and Canada, but in Argentina and Russia, were opened up to cultivation. The development of steel ships and consequent cheapening of ocean transportation, was also an important factor in this agricultural development, and so was the cheapening of steel for agricultural implements. In fact the cheapening of steel was the chief influence in the fall of prices, which was almost uninterrupted from about 1870 down to 1896. That fall of prices made living cheaper in all the centers of population, and was especially beneficial to the wage-earning class. Their condition never improved more rapidly than during this time. The farming class did not fare so well because the improvements in transportation brought so much new land into competition with the old.

This is not the place to discuss all the counter influences which have brought about a rise of prices since 1896, but it is pertinent to say that outside of Canada there has been little building of new railways or opening of new agricultural territory since that time, and the advance of foodstuffs, raw materials and wages has been the chief factor in the general rise of prices.

Mr. Carnegie's Critics.

Mr. Carnegie's critics have always argued either that he charged too much for steel or did not pay high enough wages to his employes. As to the first argument, it is pertinent that he was the greatest price-cutter in the business. That was his notable characteristic. He was a terror to competitors, who never knew when he would break loose or how far he would go. He was always improving his works, to lower his costs, to increase his tonnage, to lower his costs, etc. It used to be said in the west that the farmer wanted to buy more land to grow more corn, to feed more hogs to buy more land, etc., and Mr. Carnegie travelled a somewhat similar circle. Henry Ford's hobby is mass production, but Andrew Carnegie was ahead of him on that line. He made his money in steel, as Ford has made his in automobiles, by lowering prices and increasing the volume of production. The critics who take the fact that he made a great fortune as prima facie evidence that he charged too much for steel might as well say that Ford has charged too much for his automobile. Indeed that criticism has been made, but it is an illogical one to make of any man who is the low price-maker in his line. Moreover, since Mr. Carnegie's profits were constantly used to increase production and lower prices the public was benefited by his having abundant means with which to carry on his policies.

The Wage Question.

With respect to the argument that the accumulation of wealth in his business is prima facie evidence that he might and should have paid higher wages, two questions may be raised: First, whether the employes of Mr. Carnegie, as a matter of abstract justice, were entitled to higher pay than the employes of his competitors for doing the same kinds of work; and, second, whether it would have been in the public interest, or the interest of the wage-earning class as a whole, for him to have disbursed his profits in payment of wages above the economic level.

Mr. Carnegie did not pay any class of labor lower wages than were current in the industry for a given class of work. On the contrary he had the reputation of being a good employer. It may be laid down as a general rule that the large employers in any industry do not pay less than standard wages. They know the value of steady, reliable, experienced employes, and do not expect to hold them, or bother to try to get them, below the going wage. Mr. Carnegie was exceptionally liberal to men in positions where individual capacity counted. Nobody knew better the value of incentive to individual effort, and presumably he offered it wherever production might be increased. The only question, therefore, is whether the mere fact that a man was in Mr. Carnegie's employ entitled him to higher pay than if he did the same work for a less prosperous concern.

If an affirmative answer is made it follows that Mr. Carnegie's employes would be a fortunate class, favored through no merit of their own. If the places were assured to them and were transferable at their will, they would have a "right" equivalent to a franchise, which could be sold at a price which would bring the net return to the purchaser down to about the normal wage. Thus a stock which has an assured ability to pay 8 per cent. is worth in a 6 per cent. money market about 133.

There is no social reform or industrial democracy in such arbitrary and limited distribution. It is favoritism, of which the best that can be

said is that it may tend to promote good feeling between that particular employer and his employes, but this is offset by the fact that it is likely to cause discontent and friction elsewhere. Unless efficiency or stability in industry is promoted, there is no compensation for the extra pay, and it is not based upon any principle of justice. The permanent results are likely to be small.

The Distribution of Benefits.

We have seen that Mr. Carnegie's investment of profits resulted in benefits to the whole civilized world, reducing the cost of steel, of transportation, of tools and implements, foodstuffs and clothing, and increasing the supply of all these necessaries. If he had had less capital available for such development his accomplishments would have been of less importance, and it is probable that the disbursement of this capital to his employes, scattered among so many, would have been without traceable results. In other words, the surplus in question brought larger results to the entire wage-earning class as used by Mr. Carnegie than if arbitrarily distributed to the relatively small group who happened to be his own employes.

The same result is illustrated in Henry Ford's career. That portion of his profits which he distributes as extra bonuses to his own employes accomplishes less permanent good than the portion which he expends for experiments and investments resulting in the general advancement of industry and in the development of such implements as the farm tractor.

It is gratifying to know that an employer has the generous impulse to pay his employes more than the market wage, but it is still more satisfactory to know that there is a natural economic law which accomplishes an even broader distribution, and does it with unerring certainty not only from the gains of the generous, but from the accumulations of the most grasping and selfish.

There is no other way in which the benefits of industrial progress are so widely and promptly distributed as by lower prices for products to consumers. They are carried in this manner to the entire population, the economically weak and helpless as well as to those fortunately strong and well-situated to enforce their demands. Compare this method with the scramble for wage-increases, in which the organizations which have control over certain necessary services are able to exploit all the rest of the community.

The Public's Greatest Interest.

It must be borne in mind therefore that the application of Mr. Carnegie's profits to the improvement and expansion of the steel industry, was to an essentially public purpose. Every suggestion that he should have diverted these profits to some other use must be weighed in comparison with the public results which were achieved by the policy which he followed. At what stage of his career would it have been advantageous to the public for him to have stopped his construction policy? When he had acquired $100,000? At $1,000,000? At $5,000,000? What logic is there in blaming him for not making a different distribution of his enormous income when if he had followed any of the policies suggested by the critics he never would have had such an income. The truth is that without depreciating the value of the great gifts made after he had retired from business, he conferred greater benefits upon the public while he was making his fortune than in giving it away.

All Productive Property in Public Service.

The chief cause of social discontent is the primitive, but still prevalent, idea that a rich man's income is kept in a vault, or somehow withdrawn from the common use and devoted to the owner's exclusive benefit. The truth is that everything that can be called an investment, or that is yielding returns, is necessarily in public use. A man's clothes are an exclusive kind of property, and so is the house he lives in and its furnishings, but the productive wealth of the country is employed for the common welfare. Everything that is producing for the market is producing to meet public needs. The farming land of this country is private property, but, regardless of who owns it, it is producing for a common supply. The wheat crop now being harvested is 300,000,000 bushels short of the estimate of June 1, but that loss under normal conditions would fall on the consumers rather than the land-owners. The cotton crop is also short, but there again the loss falls mainly on the consumers. The public's great interest is in increasing production, and it is to this purpose that all invested wealth is devoted. The great bulk of the earnings and profits of wealth are being used as Carnegie used his during his active career, viz.: in developing the means of production and increasing the supply of articles of common consumption.

Unfortunately our public discussion ignores this evident truth, and proceeds for the most part upon the theory that the achievements of the leaders of industry benefit nobody but themselves, and that it is good public policy to hamper their efforts and deprive them of the means with which they work.

The Public Gets Another Chance at Profits.

The public gets another chance at all the profits which it sees flowing into private pockets. They are not buried in the ground. The acquisitive instinct forbids that, and the only way they can be put into use is by increasing production or public service in some manner. The story is repeated over and over again. It is no answer to say that each investment of new capital exacts profits, for the community loses nothing in paying profits which are immediately devoted to

further service. Except what Mr. Carnegie personally consumed, the community has the total results of his labors.

The steel business was developed out of its profits—the profits which have been so often criticised. Without them the required capital would not have been available and steel would be still unknown to its multiplied uses. It is the same with all the industries. The great cotton manufacturing industry has been developed by means of the profits made in it and the public has gained more by the investment of these profits for the cheapening of production than it would have gained in having cloth sold to the public at cost, because in the latter event there would have been no progress in the industry.

Ogden Armour testified before a Senate Committee that 87 per cent. of all the profits of the Armour business since it was incorporated had been left in the business for its development. The profits of the business have averaged less than 2 per cent. of the value of the annual turnover, and only 13 per cent. of this 2 per cent. has been withdrawn from the business—less than 2 mills to the dollar of turnover. If the Government had owned the packing business it would have had to provide the capital for its expansion either through profits or taxation.

The Government Industry.

Andrew Carnegie's career is very suggestive of comment upon the proposal to have the Government embark in industry. If Mr. Carnegie had been hired by the Government, after the Lenine plan, to devote his life to the development of the steel industry upon a salary amounting in the aggregate to his living expenses, the charge upon the community for his services would have been practically the same. He could not have devoted himself to the task more completely, and allowing that his zest was undiminished he would have had nothing like the independence of action or free use of resources. Imagine him before Congressional Committees (changing every two years) trying to persuade them to adopt his policies and dissuade them from distributing the steel industry throughout the states on the basis of population and according to the principles laid down for the public building and river and harbor appropriations!

Or, imagine him trying to get permission to scrap practically new equipment in order to carry out some new idea; and imagine his position, and the task he would have defending himself against critics and rivals, if some of his ventures proved unsuccessful!

The whole theory of having the Government conduct industry is based upon the idea that the profits of private industry are lost to the public, that private wealth is hoarded for exclusive use and consumption. People think of a rich man's wealth as withdrawn from the common supply, and that other people have less in consequence, but that is true only of the negligible portion which he and his dependents actually consume. Additions to capital all go to increasing the common supply, so that everybody has more in consequence.

How much more of the wheat crop did Mr. Carnegie withdraw from the common supply after his income passed a million a year than while his pay was $50 per month, and how much more did he contribute to the wheat supply by reducing the price of steel than he ever withdrew from it for his own support?

How much more has Mr. Ford withdrawn from the common food supply since his income was a million a year than while he was working for wages, and how much more has he contributed to the food supply by developing the farm tractor than he has ever withdrawn from it?

The greater part of all the accretions to private wealth are in the form of equipment for increasing the production of things of which the rich already have an abundance, and of which, few in number as they are, they can consume comparatively little. The benefits accrue inevitably to the masses of the people.

The Bond Market.

"The general bond market last month passed through a very trying period, this being particularly true of railroad bonds. The general railroad situation became extremely involved by the radical Plumb proposition and the statements given out in connection with it. This disturbance, coupled with some liquidation of bonds from abroad, due to the heavy discount at which pounds, sterling and French francs have been selling, has caused a very general decline in prices, although the volume of the liquidation has not been as heavy as would appear from the low level of bond prices today. It is our opinion that this liquidation of bonds would have been absorbed in a much more satisfactory fashion had it not been for the vacation season, which is being observed more generally this year than possibly ever before. Not only has the probable investor been out of town, but a great many of the bond selling organizations have been working with depleted forces. Towards the end of the month a slightly better demand has developed, caused to some extent by the dealers showing more courage in anticipation of a good September bond market.

It is a significant fact that high class railroad securities today are selling on an average of from three to six points below the level just preceding the armistice.

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, OCTOBER, 1919.

The Steel Strike.

THE steel strike is the culmination of an attempt by the radical wing of the American Federation of Labor to extend its authority over the employes in that industry. The move began with sending professional organizers among tne employes to work up discontent and antagonism against the employing companies. The Mayor of McKeesport has decribed the proceedings as follows:

> For some time organizers having no connection with the workers of McKeesport, but coming to it from outside of the city, have been endeavoring to unite mill workers into the observance of a strike, using for that purpose inflammatory arguments, seditious language, threats and misleading statements. Their work has been directed mainly among foreigners now working here, little, if any, support being granted them by Americans and by the better class of workers of foreign descent.

The type of these strike-leaders is revealed by a sample extract from a book on "Syndicalism," of which Earl C. Ford and William Z. Foster appear as joint authors. Foster is in general charge of the strike in the Pittsburg district. The following extract is no worse than the general tenor of the book:

> In his choice of weapons to fight his capitalist enemies, the Syndicalist is no more careful to select those that are "fair," "just" or "civilized" than is a householder attacked in the night by a burglar. He knows he is engaged in a life and death struggle with an absolutely lawless and unscrupulous enemy, and considers his tactics only from the standpoint of their effectiveness. With him the end justifies the means. Whether his tactics be "legal" and "moral" or not, does not concern him, so long as they are effective. He knows that the laws, as well as the current code of morals, are made by his mortal enemies, and considers himself about as much bound by them as a householder would himself by regulations regarding burglary adopted by an association of house-breakers. Consequently, he ignores them insofar as he is able and it suits his purposes. He proposes to develop, regardless of capitalist conceptions of "legality," "fairness," "right," etc., a greater power than his capitalist enemies have; and then to wrest from him by force the industries they have stolen from him by force and duplicity, and to put an end forever to the wages system. He proposes to bring about the revolution by the general strike.

T. J. Vind, president of the Council of steel unions in the Chicago district, at a public meeting last week in support of the strike said: "I was one of those who believed that we had no business going into the war and fought to keep us out of the war."

Another member of this committee, selected to unionize the steel industry, is Frank M. Ryan, who as President of the Iron Workers' Union was convicted of complicity in the dynamite outrages at Los Angeles and sent to the penitentiary. Having completed his term of seven years, the longest sentence given any of the criminals in that celebrated case, he is again active in his industrial efforts.

These agitators, having carried their campaign far enough to have some basis for the claim that they represented employes, then applied to the officials of the companies for a conference. The latter, not being favorably impressed by the steps taken, or with the promise of good results from having these parties participate in the management, declined to confer, whereupon the union officials gave out that there was no possible course for them to pursue but to shut down the steel industry if they could. This they have been trying to do, regardless of the far-reaching interruption of industry which would result outside of the steel industry.

Radical Leaders Forced the Strike.

The statement of the labor leaders that they were forced into this strike, that they had no alternative, is in conflict with the facts of common knowledge. They were clearly the aggressors. They disturbed a status in which there had been no change for many years, except changes that were favorable to the employes. Moreover, existing conditions are very favorable to the employes. Wages have been increased since 1914, by about 130 per cent., which is more than the increase of living costs by any authoritative calculation. The lowest rate of pay for unskilled, inexperienced employes of the United States Steel Corporation is 45 cents per hour, and the average actual earnings for all the Corporation's employes, exclusive of officials, salesmen and salaried office force, for the month of December, 1918, after the last advance went into effect, was $6.23 per day. There have been no reductions since. The employes of the steel industry were

conspicuous in the class of wage-earners who had profited by the war, as contrasted with many thousands of people in other occupations whose pay or income has not been increased at all, or not enough to meet the increase of living expenses.

Importance of Production to the World.

Industry has been in turmoil as a result of the interruptions caused by the war. There is great distress over the world from a scarcity of the necessaries of life. So good an authority as Mr. Hoover says that there is yet danger of a loss of life far greater than what has occurred. There is need for iron and steel for the tools and machinery of production, for ships and cars, and the general restoration of industry. Society is in the midst of a great emergency, facing not only want, but menacing forces of disorder, and needing the aid of all sober-minded, patriotic citizens. The President made an appeal to the railroad employes which was broad enough to include all classes, for patience and cooperation while the Government gave its best efforts to stabilize conditions. The railroad men responded, and the President then appealed directly to the labor leaders who were contemplating this strike, asking that they postpone it until after the meeting of the Industrial Conference which he had called to meet October 6th.

No Necessity of the Time.

It is under these conditions that radical leaders have forced this strike. They were under no necessity of acting at this time. There was no critical situation. The men had lived under open shop conditions for many years, and might have lived under them at least for a time longer. No issues have arisen which the strikers have not created themselves, and at a time when they were more favorably situated than at any other time in the history of their industry, and above almost every other class of wage-earners in the country. Evidently the strike managers have looked upon the critical state of world affairs without any interest in the common welfare or any sense of responsibility as citizens, but as affording an opportunity for them to secure further advantages under the threat of increasing the disorder.

The Distrust of Radical Leadership.

This indifference of the strikeleaders to public interests affords the best explanation and justification of the unwillingness of the steel companies to place the Federation of Labor in a stronger position within the industry. That is the long and short of their opposition. They distrusted the leadership which aspired to divide management with them. They were afraid that power placed in its hands would not be exercised with a proper sense of responsibility and the organization leaders have suppiled the proof that the fears were well-founded.

The strongest friends of organized labor must recognize that there is ground for this unwillingness on the part of employers to have their works pass fully under the control of the organizations. There are too many instances of the arbitrary, unreasonable exercise of power, of foolish conflicts between unions and of restrictions and hindrances to efficient operations, for employers to welcome the complete unionization of their establishments, and cooperate to accomplish it. We gave last month an account of the troubles of the Assistant Superintendent of Markets in New York City in trying to get the Government food supplies moved across the city to the school houses, in an effort to distribute them by sale at the lowest possible cost. The story he told of vexatious union regulations is a common one.

Attitude of Organized Labor Toward Profit Sharing.

The United States Steel Corporation has sought to interest its employes in the business upon the most practicable of all profit-sharing plans, to wit: as stockholders. Over 60,000 have bought stock under its liberal arrangement. The radical wing of the Federation of Labor opposes and ridicules the purchase of stock by employes, and indeed all other plans which are calculated to create a co-operative relationship between owners and employes. Their policy is to have two distinct camps, with no relationship between them except through the union officials.

Public Interests Must Govern.

The lesson must be repeated over and over again that individuals and organizations seeking to forward special interests are bound to be governed by proper regard for the general public interests. Employers and business organizations must do so and organized labor must recognize the same obligation. Individuals and groups must forward their own interests by means which serve the common interests, as the farmer increases his income by increasing the yield of his farm. No business is legitimate or has any right to protection or tolerance unless its methods and its success promote the general welfare. The public is interested in the great industries because they supply the common wants, and both employers and employes are expected to follow policies that are just from the public standpoint and favorable to the progress and efficiency of the industry. Organized labor, instead of trying to force itself into power would do better to try to win its way by demonstrating how it can supply wise leadership and promote efficiency, order and co-operation in industry. The general rule for success is that individuals and organizations must win their advancement by developing qualifications for the tasks they aspire to, and that until they can demonstrate that they have them they must expect plenty of criticism and opposition.

Organized Labor's Achievements.

Everybody concedes the right of labor to organize and opposition to the organizations is due for the most part to abuses which are harmful to labor as well as to the rest of the public. On the whole the real interests of labor cannot be in conflict with the interests of the public as a whole. It is a perfectly safe rule for labor, as well as a just rule, that whatever promotes the efficiency of industry, increases the production of common necessaries and comforts, and advances the general welfare, shall govern.

The proper function of labor organizations is to protect the individual worker from an abuse of power by the employer and to promote the welfare of a trade by just consideration of its deserts as compared with all the other trades. The compensation of the worker comes to him first in money but finally in the products of other workmen, and it is important therefore that a fair relationship shall exist between the several groups of workers. This is best maintained by conditions of free movement into all the trades.

What Has Raised Wages.

It is a great mistake to claim that the general advance in the position of labor in the last fifty or more years has been due to the labor organizations. The general level of "real wages," by which is meant the purchasing power of wages, is only slightly affected by the organizations. A single trade by being highly organized may push its wages above the common level, at the expense of the other members of the community, who for the most part are also working people. But if all wages are pushed up, without an increase of production, the cost of living for everybody will rise correspondingly. The great factor in the rise of wages has been the improvements in industrial methods, in organization, equipment, and means of transportation which have increased production. These and not the power of labor organizations have accomplished the difference between wages in China and in the United States, and unfortunately, the labor organization more often than otherwise have opposed the introduction of labor-saving improvements.

Capital Cannot Exploit Labor.

There is great misapprehension as to the power of capital to exploit labor. An individual employer may pay less than the normal wage, although it is almost certainly a mistaken policy to do so, but whatever the profits upon capital may be the owners will naturally want to invest them, and their efforts to do so will enlarge the demand for labor and increase wages. Furthermore, there are no investments for capital except in producing something for the public market, and unless the purchasing power of the masses of the people increased to correspond with the increased production, industry would come to a standstill, and there would be no use for new capital. There is an inevitable competition between the new capital always coming on the market and all the old investments.

The Economic Law of Distribution.

So long as capital increases faster than population, and faster than the labor supply, there is bound to be an increasing demand for labor which moves the wage-rate gradually upward; and at the same time there is going on an increase and improvement in the machinery of production which gives a constantly increasing output of commodities per head of population. This is the economic law which distributes the benefits of industrial progress to the masses. It is inevitable in its operations, not depending upon the benevolence of employers on the one side or upon strikes or labor organizations on the other. Organized labor can co-operate with it by assisting production or interfere by restricting or embarrassing production. The latter, unfortunately, from ignorance of labor's own interests, is the course too often followed, and as long as this is the case there will be opposition to an extension of its power over industry. The most intelligent labor leaders understand this, but they have a fight on their hands much of the time to retain authority, and are often unable to control policies.

Labor's Increasing Share.

There is a natural and definite relationship between the growth of capital and the rise of wages. They move along together, and neither can go forward without the other.

For this reason qualification must be made to the prediction commonly uttered just now, that hereafter labor is to have a larger share of the industrial product than heretofore. If the product is increased this will be true, for labor has always had an increasing share of an increasing product, but if the share of labor is to be increased by cutting down the amount available for the improvement of the industrial equipment, industrial progress will be retarded, and if population increases faster than production society will retrograde.

Final Distribution of Product.

One of the most comprehensive of recent studies of the distribution of the social income is that entitled "Wealth and Income of the People of the United States," by Professor W. I. King, of the University of Wisconsin. It appears in book form in "The Citizen's Library of Economics, Politics and Sociology," a series edited by Dr. Richard T. Ely, the veteran and honored head of the Department of Economics of that University, a state educational institution of high rank, and recognized to be of liberal and progressive spirit.

Professor King recognizes the growth of productive power which results from the accumulation of capital, and sums up his conclusions as follows:

"After all reasonable allowances have been made, the fact remains, practically, that, beginning with 1870, there has been an increase in the national dividend so enormous that it cannot logically be ascribed to anything but the tremendous advance in productive power due to the revolutionary improvements in industry which have characterized the last half century. It seems improbable that any other great nation has ever experienced such sweeping gains in the average income of the inhabitants. It has, almost necessarily, been accompanied by a great rise in the standard of living."

* * *

"Of late, we have had a period of 'muck-raking' in which all things that exist have been pictured as very bad and growing worse. The misery of life, the difficulty of making both ends meet, has been over-emphasized. True, it is just as difficult to secure the articles required by our standard of living as it ever was. But our standard of living has grown more expensive. Increases in quality cost even more than increases in quantity. Our wants always have and probably always will increase with our ability to satisfy them, so that there is never any hope of winning the race with our standard of comfort. Such a race is just like chasing one's shadow. Nevertheless, to the present author, a larger per capita supply of economic goods appears to be a most distinct benefit to any nation, and the United States has been greatly favored in this line during the last sixty years."

* * *

"The period 1850-1900 saw that come to pass in the United States which the English economists of the earlier nineteenth century deemed impossible—the improvement of the workingman's economic welfare to the extent that he was lifted out of the conditions formerly thought inseparable from a working life. He tasted the cup of learning; he experienced the joys of leisure and entertainment; and he so limited the size of his family as to enable his children to continue to secure these advantages. Larger income and more learning naturally brought more power and secured more respect. The army of labor became an ally to be courted or an enemy to be feared."

Wages Get Eighty Per Cent—Capital Twenty Per Cent.

After a careful discussion of the division of the national income among all classes, Dr. King reached the conclusion that if all rent, interest and profits were added to wages the sum of the latter would not be increased by more than one-fourth. He says:

"It would seem improbable that, with our present national productive power, any feasible system of distribution could increase the average wage-earner's income in purchasing power by more than one-fourth, and this is an extreme rather than a moderate estimate. While such a change might or might not be desirable, it would at least, work no startling revolution in the condition of the employees of the United States. The grim fact remains that the quantity of goods turned out absolutely limits the income of labor and that no reform will bring universal prosperity which is not based fundamentally upon increasing the national income. After all, the Classical Economists were right in emphasizing the side of production in contradistinction to that of distribution. Nature refuses to yield her bounty except in return for effort expended. Demands for higher wages have never yet unlocked her storehouses."

This addition of 25 per cent. to wages which Professor King calculates to be the utmost that might be theoretically made, if all rents, interest and private profits were confiscated, would leave nothing for improvements and additions to the present industrial equipment, except the savings from wages, and nobody supposes that the additions would be nearly all saved. Experience shows that wage increases are commonly spent, and are wanted for that purpose. Evidently there would be a large diminution of available capital for continuing the development which Professor King says has brought such benefits to the masses in the last fifty years. Moreover, the attempt to confiscate all rents, interest and profits, would throw industry into such confusion that in all probability there would be no more to divide here than there is in Russia, and the returns to the wage-earning would be less than they are now.

Suggestion for the President's Conference.

The above statements from Professor King's book open up the present industrial and social controversy to the very heart. If the facts and reasoning which he offers are sound, nothing else is so important as general public knowledge of them.

President Wilson has called an Industrial Conference to meet in Washington in a few days from now to consider the present state of industrial unrest and confusion, and submit recommendations, presumably as to public policies to be followed. When people come together to reconcile divergent views, the best thing to be done at first is to find out where and why their views diverge, and to arrive at the very truth about the state of affairs in controversy.

If Professor King's views are sound, and economists generally agree with him, there is a vast amount of exaggeration in current representations about social injustice, and neither the Government nor the leaders of industry should be hurried into action on the strength of these false views. When great clamor for immediate action is made there is grave danger that imprudent action will be taken.

If Profesor King is right there is no occasion for clamor or excitement. It is true that the orderly processes of industry have been disturbed by the war, but if in their normal action they yield satisfactory results, nothing is required but earnest, harmonious work to restore and enlarge production.

If Professor King's views were generally accepted the tone of public discussion would be entirely changed, controversy and recrimination would subside, the attitude of wage-earners toward their work would change, and the production of everything required for the common comfort and welfare would rapidly increase

Investigate the King Figures.

It would seem that the best thing the coming Conference can do is to take steps to have an investigation into the validity of Professor King's conclusions. The Conference probably will not be able to undertake such an investigation, but it can recommend the creation of a competent body, which should be composed of

impartial persons trained to economic research and familiar with the sources of such information. The labor organizations have men who have been associated with them and in whom they have confidence who might be properly included in the membership. Their first duty will be the scientific determination of the truth as to what has been the final destination of the national income during the period covered by Professor King's inquiry. What is the truth about the statement often seen that two or three per cent. of the population absorb to themselves more than one-half the national income? Let us have an investigation that will afford an authoritative answer to these questions.

Farmers and Wage-Earners.

We have received numerous letters similar to the following, which presents the farmer's interests in the industrial situation so well that we give it entire. All that it says about the low compensation of the farmer as compared with workers in the town industries has been true much of the time in the past. We believe, however, that the situation had been measurably corrected in the ten years preceding the outbreak of the war. The price of foodstuffs and clothing materials are now on an abnormal basis and so are wages in many of the industries. The whole price and wage structure should be lowered as nearly simultaneously as possible. Farm products will come down, because they cannot be artificially sustained, and it remains to be seen whether the farmer will get a reduction on what he has to buy. A large decline in important farm products has occurred in the last two months, but the town wage-earners are still engaged in trying to push their wages higher. In the long run equity must rule, and we commend this letter to careful consideration. The essential truth to be absorbed is that the situation is not one of a struggle between capital and labor but between groups of producers. When this is fully comprehended a start will be made toward consideration without prejudice:

Amarillo, Texas, August 11, 1919.

Gentlemen:

I have read for the last two or three years your monthly bulletin and I always find it of much interest. I have watched carefully what you have said the past several months with reference to wages, labor conditions, cost of living, etc. On page 7 of your August bulletin you say:

> "What is wanted above everything else to relieve the strain under which society is laboring all over the world is normal supplies of food and clothing materials."

and a little further down you say:

> "We have held consistently that a decline in foodstuffs, which constitute the largest item of living costs, must lead the way in any movement of lower wages and general prices."

I have lived for a great many years in a farming country where production of both clothing materials and foodstuffs have been the principal occupation, outside of a few towns where railroad labor makes up a good part of the population. It is my opinion that had the farmer worked the same number of hours and received the same rate of pay as railroad employees, building trades employees, miners and other similar laborers who are usually well organized, that the cost of foodstuffs and clothing materials for the past twenty years would have been far in excess of the prices that have prevailed.

Take for instance the cotton farmer; in a vast majority of instances he labors from 12 to 16 hours a day and in addition to his own labor is that of every child who is large enough to go into the field, and added to this often is the labor of his wife for several hours a day when she is not busy with cooking and other household duties. This child and woman labor has never been looked upon as a part of the cost of production. The same things apply to a greater or less extent to raising wheat, corn, cattle and farm products generally.

It is my opinion that because these foodstuffs and clothing materials have been produced in this way that the price of them has been such that what we term organized labor has been able to provide the necessities of life by working much shorter hours than the farmer.

It seems now for the first time farm labor is beginning to demand pay something in keeping with other laborers; for instance this year for the first time harvest hands in this section are being paid by the hour instead of by the day and are getting 50 cents an hour, and in some instances more, together with their board and lodging. The harvesting, especially of the grain crops, forms only a small part of the labor connected with the crop and even at this time farm hands generally who are working regularly all year through are being paid far less than what we generally call union labor, such as railroad employees, miners, etc., and work longer hours.

If the farm laborer is to come in for the same hours of work and rates of pay that organized labor is now getting I cannot see how foodstuffs and clothing materials can be produced even with most favorable crop conditions for as low prices as are being paid for these items today.

I can see no reason why because farm labor is not organized it should not be paid as well and have as favorable hours of work as the so-called organized laborers. Many of the latter call themselves skilled laborers and in a sense they are, but any capable farm hand in this day of farming with machinery is as much entitled to be classed as a skilled laborer as the average organized worker and in many cases it takes far more knowledge and judgment to do farm work than it does to be a first class workman in the average trades.

Where in your opinion would the cost of living go if all farms and ranches were owned by corporations and worked by union labor on the lines that coal mines, railroads and other institutions using organized labor are now operated?

Yours truly, EARL COBB.

General Business Conditions.

General trade and industry holds up well, despite various menacing influences, such as the policeman's strike in Boston, steel strike, ominous reports from the coal miners, threatened curtailment of foreign trade, high industrial costs, etc. Bank clearings are running ahead of last year at an astonishing rate. For the week ended September 13, the "Commercial and Financial Chronicle" reports for all clearing houses an increase of 26.3 per cent.

over last year, and for the large centers a higher rate. This is confirmed by the reports to the Federal Reserve Board, which in a comparative statement for the same cities for the weeks ending September 17, 1918, and September 18, 1919, show aggregates of $6,313,356,000 and $9,734,351,000, respectively, or an increase of approximately 50 per cent. Higher prices are a factor in this but probably the shift of industry from Government orders to miscellaneous private business is a larger one. Railroad traffic is very heavy, with a shortage of equipment and earnings larger than a year ago. The railroads will make up in the last half of the year some of the deficit in rentals of the first half.

Free Buying.

The buying power of the population is large and there is no reluctance to use it. On the contrary there is a mania for spending, which taken in connection with the curtailment of production in many lines causes a scarcity of goods, and makes the high prices which everybody complains of but which apparently affect nobody's purchases. Travel is very heavy, hotels are crowded, although charges have been everywhere advanced. The demand for silk stockings, and fine underwear and jewelry is beyond anything in the past. The sales of bar gold by the United States Assay Office, New York, to manufacturing jewelers, in the first six months of 1919 amounted to $26,919,078 against $15,377,628 in the first six months of 1914. All this is not the luxurious living of an aristocracy of wealth, but free spending by the great body of the people.

Rise of Prices Checked.

A check has been given to the rise of prices, and although the Government's campaign has made no great showing in concrete results it has had an effect in giving direction and force to public opinion. The demands of the railroad brotherhoods and statements by the President helped to make up the public mind that the crazy cycle of rising wages and prices had about reached the limit. The whole industrial situation was headed for chaos.

The threats of Government prosecution doubtless inclined some holders of foodstuffs to let go, and the sales of large Government stores was a more important influence, but a weakening of the foreign demand and an improvement in the corn crop were still more important. The fall of exchange rates has made the prices which appear high in this market still higher to foreign consumers. Moreover, the foreign crop of grains is now available, and ships are rapidly conveying the stores of Australasia and Argentina to England. Packers' sales abroad have declined and prices of provisions and hogs have been affected thereby. Hogs are down $4 to $7 per hundred weight from the top. Corn has had a decline of about 65 cents per bushel from the top, which shows how easily prices can come down when sentiment shifts. Cotton is down about 5 cents per pound.

The markets are all more quiet since the conclusion seems to have been reached that further advances were intolerable. It has been demonstrated that the best treatment for them when they show symptoms of going wild is resolute abstention from buying.

Uncertain Factors.

The higher costs are made, and the more disturbance there is in industry, the closer business men will keep to shore. The heavy taxation upon profits makes them disinclined to take any chances.

The foreign trade situation is approaching a more precarious stage, although August exports at $646,000,000, were $76,000,000 greater than in July, and imports at $308,000,000 were $35,000,000 lower. The feeling nevertheless, is, that without more organization for the granting of credits this trade will not be sustained, and that any falling off will bring a lower price level in this country.

The wise policy for the labor organizations to pursue is to quit their policy of trying to push wages higher, and make a study of how to hold the wage rates they have gained, looking for future gains to an increase in the purchasing power of the dollar. They should look now to increasing production. They should look after their position as consumers. They should seek to co-operate with employers in accomplishing a reduction of the costs per unit of product to what they were before the war. If they can achieve this their new wage rates will be secure and represent real gains—a real increase of command over the necessaries and comforts they want. Otherwise they are chasing shadows, and may disorganize industry to such an extent that many of their number will be out of employment and the cost of living will rise faster than wage advances to the others.

The Labor Situation.

The iron and steel industry was running close to capacity and with excellent prospects for some time to come, when the trouble-makers decided to interfere. If the industry is tied up for months it will have the effect of shutting down work in many lines all over the country, cause a great amount of unemployment, and have an effect upon trade. The wage-earning class inevitably will suffer the heaviest loss. The thinking workmen know it, but there are misguided ones who believe that if only the suspension of work can be carried far enough to completely paralyze the indispensable industries and services victory is assured. Hence the fascination of the idea of "one big union."

They do not seem to recognize that the greater the paralysis, the greater and the more unendurable the disaster will be to the whole body of the people, and the more certain that the schemes of wreckers will fail. The idea is about as rational as for a mutinous crew to burn up their own ship in mid-ocean to get rid of the officers, who would perhaps number one to ten of the crew. It is true that a similar folly has been committed in Russia, and brought upon the common people a calamity unparallelled in the history of the world, but it has been accomplished there by the power of a small minority over an unorganized and inert mass, and there is no reason to believe that the majority can be over-run in that manner in the United States. The public will put up with individual strikes, and endure great inconvenience to allow of their being fought out, but that is upon the theory that large freedom of action is best. If, however, it comes to a clear issue of ruin to the social order, general starvation and anarchy, the conspiracy will fail from the reaction which it would create.

The steel strike, although deplorable, is reassuring in its influence because it has served to show that the American workmen as a rule are sound at heart and in their purposes, and have no intention of joining revolutionary movements.

Boston Police Strike.

The Boston strike of the police had a like wholesome effect, calling out such a decisive expression of public opinion as to inspire confidence. President Wilson voiced the practically unanimous opinion of the country when he pronounced it "a crime against civilization." That is the precise term for it. Civilization depends first of all upon the preservation of law and order, so that the calm, free judgment of each citizen may be taken in determining social policies. There can be no backward step from this principle, that policies must be determined through the ballot-box, and that organized society must have the power to rule over the mob.

The lesson throughout is that there is no issue between classes in these controversies. It is a question of maintaining order and production in society, and the wage-earning class has just as big a stake in that as anybody. If railroad traffic is summarily suspended, and food cannot be delivered in the cities, or industries are compelled to suspend, the wage-earning population suffers more than anybody else, for there are more of them to suffer. Everything that disorganizes industry, impairs its efficiency and reduces production is directly harmful to labor. The class which has most to gain from the steady and efficient operations of industry is the wage-earning class.

Financial Affairs.

The money market in September was marked by a continuance of the ease which developed in August, although normally crop-moving demands are expected to tighten up the situation at this time. Call money got as low as 4 per cent., and ruled around 5 to 6 per cent. a good share of the month. Time money ruled at 5 to 6 per cent. with commercial paper at 5 to 5½. Commercial paper brokers reported an improved demand, and that the bulk of the offerings were taken on a 5½ basis. The market for acceptances and commercial paper was helped by the redemption of Victory loan certificates, reduced offerings of new certificates and the low rates ruling for call money.

Treasury Borrowing.

The money situation has been favorably influenced by the optimistic statements of the Secretary of the Treasury as to prospective receipts and disbursements, and the apparent success of his effort to reduce the interest rate on future issues of certificates. The Treasury has over $1,400,000,000 of cash and the settlement of war contracts has reached a stage where balances of this size need not be maintained. Subscriptions to the 4¼ per cent. Treasury certificates maturing March 15, and the 4½ per cent. certificates maturing September 15, 1920, both issues receivable for taxes, were closed September 10, with about $750,000,000 subscribed. The offering without apportionment was a success, and the 4½s have been quoted at a slight premium. The Secretary announced that there would be no further offering before October 15, and that offerings probably would not be for more than $250,000,000. With the requirements of the Treasury thus reduced, the outlook is for easier conditions this fall than had been anticipated.

Outlook for Fiscal Year.

There is an apparent conflict between the calculations of the Secretary of the Treasury and those of Mr. Good, Chairman of the House Committee on Appropriations, as to the outcome of the Treasury in the current fiscal year. The Secretary holds that income and outgo will about balance while Mr. Good predicts a deficit of about $3,500,000,000. The difference between these two authorities is possibly due to the Treasury certificates amounting to about $3,600,000,000 which were outstanding at the beginning of this fiscal year. If they are paid out of the revenues of the year there will be a deficit of about that amount, but if no account is taken of them, income and disbursements will about balance. In either case it appears that the Treasury will not have to go to the money market except in refunding operations, which release as much money as they require. It will be a great gain over condi-

tions in the last two years to be assured of this. The Secretary and Mr. Good are both entitled to public approval for insistance upon the necessity for the utmost economy in public and private expenditures.

Gold Movements.

The total payments in gold of the German Government to the United States Food Administration have amounted to $158,000,000, part of which has reached London and the remainder is in Belgium and Holland. As fast as it reaches the Bank of England it is apportioned among the Federal reserve banks, and will swell their reserves. Incidentally we would remark again that it is not needed there, and will be as dead as it was in the mine. It is a pity to take gold from Europe, and from Germany, when needed there so much to give confidence and stability as the basis of credits. Interest-bearing securities would serve our purposes better. But this is merely one phase of the problem involved in our relations to Europe.

Approximately $5,000,000 of South African gold has been reported as bought in London for America, but no arrival here has been reported. It is logical to expect a steady stream not only from South Africa but Australia and the other producing regions. London cables represent that even the gold producers of India are negotiating for the privilege of selling their product in the best market, which is the United States. The situation is not created by the needs of the United States, but by the great demand in other countries for means of payment in the United States. The gold producers will ship the metal to the United States and sell the exchange thus created in the markets of the world.

All the streams of gold are headed for the United States, where the influence will be to raise prices higher and higher above the world markets until the trade balance is turned against us. It is an illustration of nature's struggle to correct abnormal conditions and to restore the normal equilibrium.

Foreign War Debts.

Somebody has set afloat the idea that a proposal is pending to have the United States guarantee the war debts of its allies. Various suggestions have been afloat in Europe looking to a considerable credit in which the allies and perhaps some of the neutral nations would participate, for purposes of rehabilitation. One of the proposals has included the Teutonic powers. Some of them have proposed an apportionment of the war debts. None of these proposals, apparently, has been given consideration by the authorities. The finance minister of Australia has been in London with a proposal to consolidate the war debts of the British Empire, but the newspaper comments indicate that the plan has not met with favor.

From time to time the suggestion has been made, in this country perhaps more than in Europe, that the United States could afford to forgive and cancel the loans that have been made by the Government at Washington to the allied governments.

None of these suggestions have been made formally or by any one in authority, and there is no reason to suppose that any considerable number of people have given them serious thought. The most practical and helpful acts that it is feasible for the United States to do for the assistance of Europe, is, first, to add the accruing interest upon the European obligations to the principal for a number of years, until the industries of those countries are fully recovered from the war; and, second, to increase the sum of the credits, by loans in the public market, to aid them to obtain necessary supplies and equipment and so hasten their recovery.

Europe Not Bankrupt.

If the industries of Europe are restored and modernized, and industry makes the same rate of progress in the next 25 years that it made from 1890 to 1914, these public debts will grow rapidly smaller in relation to the productive power of the countries. This is the relief to anticipate. They will be able to pay their debts to the United States and never miss the wealth, if they can have time to first build up their productive organization. But most likely the debts to the Government of the United States will be eventually transferred to the private investors of this country and they may be quite willing that payment shall never be made. The investment fund of the world is a common reservoir, or should be.

It is not in the interest of the industries of the United States that the interest upon this indebtedness or any of the principal should be collected at an early day. The attempt to gather up exchange on the United States under present conditions, for the purpose of making such remittances, would send that exchange to a higher premium and create a further handicap upon American exports in all markets.

No Payments Yet On Principal.

Statements have appeared in the newspaper recently conveying the impression that Great Britain and France had begun payments upon the principal of their indebtedness to the United States. This is not so. The payment of $7,500,000 stated to have been made by France and $22,000,000 by Great Britain in each case represent an adjustment of accounts, and are not to be interpreted as the beginning of a series of payments upon the principal of the indebtedness. Obviously, it would be a great hardship for these countries to begin such payments at the present rates of exchange, and they certainly would not do it of their own

choice, nor would the United States Government require it.

The total credits which have been granted by the United States Government to foreign governments, as of the close of business September 16, 1919, were as follows:

Belgium	$ 343,445,000.00
Cuba	10,000,000.00
Czecho-Slovakia	55,330,000.00
France	3,047,974,777.24
Great Britain	4,277,000,000.00
Greece	48,236,629.05
Italy	1,619,922,872.99
Liberia	5,000,000.00
Roumania	25,000,000.00
Russia	187,729,750.00
Serbia	26,780,465.56
Total	$9,646,419,494.84

All interest payments have been made up to the latest interest date, except in the case of Russia.

The Foreign Exchanges.

The foreign exchanges have been erratic during the past month, with a general downward tendency. Sterling (British) has not fallen below the previous low mark of $4.12¼, but has been within a fraction of a cent of it, while francs and lira have been lower than ever before. Paris francs touched 9.24, Belgian francs 9.02 and Italian lira 10.17 to the dollar. The German mark touched 3.10 cents and the Austrian kronen 1.40 cents. The table of exchange rates is as follows:

	Unit Value	Ex. rate Aug. 27	Ex. rate Sept. 24	Discount from mint par
Canada	1.00	.9606	.9675	3.7%
Germany	.2382	.0500	.0450	81.1%
Italy	.1930	.1043	.1013	47.5%
Belgium	.1930	.1199	.1163	39.7%
France	.1930	.1250	.1176	39.0%
England	4.8665	4.2400	4.1825	14.0%
Switzerland	.1930	.1766	.1795	7.0%
Holland	.4020	.3712	.3750	.67%
Denmark	.2680	.2175	.2175	18.8%
Norway	.2680	.2310	.2340	12.6%
Sweden	.2680	.2440	.2450	8.6%
Spain	.1930	.1910	.1898	1.7%
Argentine	.9648	.9625	.9660	⅛%*
Japan	.4885	.5100	.5100	4.4%*

*Premium.

When foreign purchasers of American goods convert their currencies into American drafts at the above rates the premiums they must pay are larger than the discounts here shown. Thus is the case of Italy, the premium for an American draft is nearly 100 per cent., and the cost of American goods increased to that extent.

It is still a source of wonder how trade goes on, at the rate shown by the customs report for the month of August, but it must be assumed that private credits are being granted for much of it and that a considerable volume of securities are coming to this country. It is known that there has been buying of Japanese bonds in the hands of British and French holders, and that American railroad bonds are still coming back from all European markets. Moreover the United States Government is still making loans to the allied governments under the $10,000,000,000 authorization. The total of advances actually made to June 30, 1919, was $9,102,285,015.56, and about $300,000,000 has been advanced since June 30. Nobody is able to account definitely for the volume of exchange that is absorbed.

There is a steadily increasing volume of reports from American exporters who are finding their trade opportunities curtailed by the exchange situation. The railroad equipment manufacturers could do any amount of business with Government railways if exchange was on a normal basis. Contractors for reconstruction work in France could do business under normal conditions, but although winter is drawing near little is being done in rebuilding the ruined towns.

French and Belgian Trade.

A cable message from Paris dated September 16, told of an incident in the Chamber of Deputies, when in the course of the debate over the peace treaty the subject of exchange was touched upon. The dispatch says:

At the word "exchange," J. L. Barthod, former Foreign Minister, and L. J. Puech, former Minister of Public Works, demanded a statement from Louis Klotz, Finance Minister, on what they termed the extremely precarious condition of exchange. This demand was supported by numerous other Deputies.

M. Klotz said the exchange situation was due to France permitting free importations." "The only remedy," he said, "is to show America and Great Britain that we can go to other countries with a growing volume of colonial and national productions. Otherwise exchange will continue to rise."

M. Cemene said the remedy was to cease buying from the United States and Great Britain and to buy in Germany, where exchange favored France.

The same peculiar situation exists in Belgium. All reports from there say that reluctant though the Belgians are to give patronage to Germany it is practically unavoidable. An instance which illustrates the situation has developed in New York within the past month. A Belgian corporation having an investment to make in Mexico was in the market for machinery. The contract went to a German firm at a net cost only 35 per cent. of the competing American bid, the controlling factor being that Belgian money is worth a premium over German money but is at a heavy discount in American money.

Our own branch in Brussels, writing in August, said of this situation:

"The increase of the rates of exchange against Belgium has brought about a condition whereby the purchase of raw materials and finished goods from America and England is being greatly hampered. The prices quoted in dollars and pounds is not prohibitive, but when converted into Begian francs at 59 per cent in-

crease over the normal exchange for dollars (rate of 8.35 existing August 9) and 40 per cent increase on the pound (rate of 35 for August 9), purchases on the part of Belgian buyers were being widely discontinued.

"This was so, especially in view of the fact that in some cases the German houses were sending quotations into Belgium which when converted into marks at the current rate of exchange, i.e., 44 to 45 centimes per mark, prevented Belgian merchants from giving orders for American and English goods.

Regular Trade Suffering.

It is not simply a matter of preventing America from getting reconstruction contracts in Europe. The regular established business is suffering. Even though Europe continues to buy food and clothing materials, which it can get nowhere else and must have, we are losing our trade in competitive lines. We are on the very peak of the world. We have a brief monopoly of certain necessaries and raw materials, but every passing month will reduce the scope of that monopoly. A buyer will shop around from country to country until he can find somebody who can supply his wants, and the exchange situation will favor every country over the United States.

Our Trade With Canada.

The largest foreign buyer of American products after Great Britain is Canada. Our Canadian customers thought the conditions were hard last year when American exchange was at a premium of 2 per cent., but of late it has been 5 per cent. Greenshield's monthly review, Montreal, for August discussed the bearing on Canada's trade as follows:

The further demoralization of all European Exchanges at New York has been accompanied by a new decline in Canadian exchange. Our attitude to this, as to the depreciation in the pound sterling, is that it is a matter of greater concern to New York than to London or Montreal. *The Review* has consistently taken the stand that, while anything that interrupts the even flow of commerce is an evil, it is not an unmixed evil that the exchanges should swing against Canada for the time being. A premium of 5 per cent on New York funds at Montreal operates directly to the advantage of every producer of Canadian goods with a surplus to sell abroad. It operates conversely as a deterrent to buying from abroad goods that could just as well be produced in Canada. As a direct incentive to home industry it is as important as so much added to a customs tariff, and in the case of Canada has this further advantage that our dependence on outside sources of raw materials is limited.

Our position is in many respects the reverse of the position in Europe. There, the problem is largely one of accumulating from abroad supplies of raw materials to be converted into manufactured goods.

Our fortunate position is this, that, outside of a few essentials such as cotton, Canada has within her own boundaries all the resources, in foodstuffs to feed her population and in raw materials to supply her industries, necessary to making her self-contained. Some of these resources have lain dormant because of the ease with which purchases might be made in other markets in other days when credit on favorable terms could be had for the asking. Raw materials, too, have been exported, and the finished goods made from these materials imported, to the sacrifice of profit that should be retained within the country.

It is now a matter of every-day record that the pinch of circumstances represented in the high rate of New York exchange is directing Canadian energy and initiative to the fuller development of the productive capacity of the country in respect, not only to natural resources, but also to their conversion into finished materials. The profit in both cases is automatically increased by the exchange situation. It was the embargo on exports of pulp wood cut on Crown lands that gave impetus to the great development of the pulp and paper industry in Canada in the past ten years. In a modified form the premium on New York exchange is to-day operating as a similar embargo, restricting the purchase from abroad of goods for which the materials and the labor are available at home. No merchant is contracting lightly for goods in foreign markets without first canvassing the possibilities of supplying his requirements here.

Credit Negotiations.

There have been no developments of noteworthy importance during the past month. The Edge bill, to charter banking corporations for foreign operations has passed the Senate and is before the House Committee. No doubt its enactment will give some assistance, by enabling particular lines of industry to co-operate in distributing debentures based on foreign securities, and localities to take similar action in support of their home trade. But the best judges of the situation believe that adequate relief can be given only by a comprehensive plan, under which one kind of security, based upon common collateral, shall be offered in all parts of the country, and the sale urged by an appeal in behalf of the public interest, bringing the old Liberty loan organization into use.

During the month Finland has obtained a credit for £6,000,000, or $30,000,000 in London with the understanding that the proceeds will be expended there. Negotiations for similar accommodations are pending in the United States.

A loan to Belgium is pending, and will be brought out shortly. The amount of the offering will be $50,000,000.

Implement and Vehicle Manufacturers Association.

The Implement and Vehicle Manufacturers Association of the United States, meeting in Chicago in August, passed the following resolutions:

"Whereas, prior to the recent war exports of American made agricultural implements to Europe had been growing satisfactorily and had reached such proportions as to constitute an important element of this country's manufacturing industry; and

"Whereas, the governments of Great Britain and Canada are reported to have made substantial loans to European countries on the condition that a considerable part of such loans shall be used in purchasing agricultural implements manufactured in Great Britain and Canada; and

"Whereas, this policy is likely to result in a serious curtailment of the export trade of the United States in agricultural implements;

"Now, Therefore, Be It Resolved, that representations be made by the National Implement and

Vehicle Association to the proper department of the Government of the United States and to the banking and other authorities now studying methods of financing American exports with a view to securing the early adoption of such a plan as will permit and assist the agricultural implement industry of the United States to re-establish itself in the markets of Europe on terms as favorable as those enjoyed by the manufacturers of other countries."

Federal Reserve Board Upon Foreign Credits.

Views somewhat at variance with those expressed in this publication on this subject are set forth in the September number of the Federal Reserve Bulletin. It discusses the foreign exchange situation at length, and seems to take the position that there is nothing to do but let matters take their natural course. Trade is abnormally out of balance, and exchange rates are exerting a normal and wholesome influence to correct this condition. Credits to support the exchanges will increase, or continue competition for our products, thus imposing high prices upon our own consumers. Foreign governments are indifferent to the high rates for New York exchange, and taking no steps to remedy them; existing facilities are ample to take care of real necessities.

The article is too long to be given in full in our available space, but we make the following excerpts upon principal points:

As long as circumstances make it necessary or advisable for the United States to sell a large volume of merchandise to Europe on credit, there must be shortages of supply in the domestic market unless industry is kept in a state of high activity and all hands are at work to increase output. Unless this is done resulting shortages will mean reduced consumption to be met either by voluntary saving on the part of the consumers, or compulsory saving through the process of high or even perhaps rising prices.

* * *

It is too frequently assumed by those complaining of the fall of foreign exchanges that trade on the scale of our recent exports is a thing desirable in itself and to be kept up by keeping up the value of foreign currencies in the American market. But when the export trade is considered in connection with the domestic trade it becomes clear, as already pointed out, that the source of much of the difficulty presented by the existing situation is the continued competition of the export demand and the home demand. The state of the foreign exchanges merely reflects the state of international trade. The correction of the exchange situation, so much complained of by those who look at the matter from the exclusive standpoint of the export interest, will, therefore, only find its natural and permanent solution through a reduction of our exports and an increase of our imports until they reach a point of approximate equilibrium.

The fact remains, however, that the present relationship of exports to imports—the volume of one being very large and the other comparatively small—is unhealthy and seriously disadvantageous to this country, looking at the situation purely from our domestic point of view.

Looking at the matter from another angle, it is evident that European countries find it difficult in the present circumstances to make purchases in this country, but the outstanding fact is that these countries have not seen fit so far to adopt any effective measures for the correction of existing rates of exchange. Ministers of several of these countries have looked with complacency upon the decline in exchange which tends to limit purchases here. This decline makes it possible for the countries affected to leave their commerce unrestricted without danger of having their nationals over-buy in our markets.

* * *

From the viewpoint of the lending country, i: e:. the United States after completing its own war financing the ability of our Government to assist foreign Governments without vast inflation and consequent danger to our own credit is problematic. The American people have subscribed liberally to war loans, but there is nothing to indicate that when they shall have closed the account by doing their part in such financing as remains to be done to liquidate the war bills they will be inclined to buy any considerable amounts of bonds of this Government for the purpose of further financing Europe.

The complete stabilization of foreign exchange could be effected only through unlimited advances to foreign countries, advances against which those countries will draw as their needs require. As drafts are drawn and sold abroad, the proceeds in foreign currency would go to the Governments concerned and become available for the purposes of those Governments. This process would give those Governments power to draw on this country indefinite amounts for unspecified or undisclosed purposes, and to meet these drafts our Government would have to sell additional obligations to its own citizens. Thus, to the extent of the credits extended, the burden of foreign war debts would be transferred to the shoulders of the American people, offset, of course, by such repayments on account of interest or principal as the foreign Governments might make from time to time; but even if ultimately fully offset, our own Government obligations must still in the first instance be marketed.

* * *

There is no reason to doubt that private initiative, supplements by such facilities as governmental agencies are authorized to make under existing law, can deal effectively with the present situation.

* * *

Credits extended abroad and foreign securities purchased must in nearly all cases run for periods beyond the limitations of ordinary banking credits, and banking resources can be safely utilized to a limited extent only in giving the accommodations now needed abroad. Appeal must be made to those who are in a position to purchase securities for investment and pay for them with funds accumulated to their credit in bank.

That the exchanges are in an abnormal state of course is true, and that ultimately they must be brought back into balance by a decrease of exports or increase of imports or both. But is there not a good reason why our exports to Europe during the year or two following the war should largely exceed our imports from there, and should we not wish it to be so? Is it not in the interest of both parties that it shall be so? Will not the return to normal trade conditions be hastened by selling the people of Europe the equipment and supplies they need to restore their industries to operation? Isn't it a little early to apply the doctrine of laissiz faire (let alone) rigidly to the economic conditions of Europe?

It is true that in England the high cost of American exchange is commented upon by some as not on the whole to the disadvantage of that country, but the situation is different on the continent. England suffered little injury to her productive industries by the war; they are in condition to run and compete with us on the continent and elsewhere. The devastation was on the continent. The ruined workshops, empty factories and wrecked railroads are there. It sounds almost like cruel satire to suggest of France and Italy, with coal at $100 per ton, and unobtainable at that, and of Belgium and Poland, that they want credit in indefinite amounts for "unspecified or undisclosed purposes." The fact that these people continue to buy under existing conditions shows how desperate are their needs. They are not discussing theories of international trade at this time; they are trying to get tools for their people to work with, copper, cotton and and other materials for their industries, locomotives and cars for their railroads; they are trying to avert starvation and anarchy until they can have some products to offer in the exchanges.

Production the Remedy for High Prices.

The answer to the argument that European buying will keep prices high to our consumers is that the surest way to bring down prices everywhere is by increasing production all over the world. Textile mills in Italy, Poland, Bohemia, Germany, Belgium and France are idle for want of cotton, and the skilled operatives are idle, thus contributing to a world shortage of cotton goods. Perhaps their buying would increase the price of raw cotton, but it would lower the price of cotton cloth in all markets. The price of cotton cloth is not regulated by the price of cotton so much as by the supply of goods. The cotton mills of this country cannot consume our cotton crops or supply the world demand for cloth. Their consumption of cotton this year is running a million bales behind last year, and our available supply of raw cotton is the largest in many years.

Moreover, isn't there a possibility that our exports may decline so rapidly as to give us something to think about besides relieving consumers from high prices? It is desirable to get back to normal trade conditions abroad and at home, but the normal and humane way to get back is by the increase of production all over the world, and our interest and duty both require that we cooperate to that end.

Upon one point there is full agreement. For the most part the credits required by Europe are of necessity larger than good commercial banking practice permits. They must be carried by investors.

Railway Partners or Creditors.

As we have pointed out in previous issues of this Bulletin, the railroad problem will be solved when means are found to attract capital in the quantity required to keep railway facilities abreast of the demands of a rapidly growing commerce and population. But safe financing requires that there shall always be a proper ratio between bonded debt and capital stock, and the railroad problem will not be solved in a sound financial way if it merely restores the ability of the railroad corporations to borrow money more freely. New partners are needed more than fresh creditors.

In 1900 the capital stocks of the railways were in excess of the amount of their debt but in 1917, 60% of the capitalization was in the form of debt and only 40% represented by stock, the excess of bonds being no less than $3,200,000,000. For a number of years this increasing preponderance of debt in railway capitalization has been noted with apprehension. As the railroad situation has become increasingly involved there is danger that, in any adjustment, the importance of establishing a proper financial structure may be ignored.

Stock Issues for Cash.

During the decade terminating in 1910, the level of security values was generally high and railway credit was good. Twenty of the leading railroad systems issued in that period more than $1,500,000,000 of new stock for cash at par or higher. The public probably little realizes what a large volume of stock was issued during this period of expansion. Following is a table showing the amount of new stock sold for cash, and the ratio of such stock to the total present outstanding common stock issues. This table, it should be clearly understood, shows stock sales since 1900 only and is by no means a complete list, nor does it include stocks which we believe to have been legitimately issued against adequate property values.

	Common Stocks Issued for Cash at Par or Better Since 1900	Ratio to Total Common Stock Issues.
Baltimore & Ohio	$107,300,000	71%
Boston & Maine	11,800,000	30%
Chicago & Northwestern	116,000,000	80%
Chic. Burlington & Quincy	12,600,000	11%
Chic. Milwaukee & St. Paul	69,200,000	60%
Delaware & Hudson	8,800,000	21%
Great Northern	118,000,000*	56%
Illinois Central	49,200,000	45%
New York Central	122,700,000	55%
New York, New Haven & Hart.	146,200,000	82%
Pennsylvania	350,000,000	70%
Southern Pacific	75,700,000	28%
Union Pacific	126,000,000	57%

* Preferred Stock. No common outstanding.

These figures will doubtless surprise those who assume that railroad stocks are mostly

water. In a recent discussion of the value of railroad property we expressed the belief that the carriers as a whole are not overcapitalized. A similar belief was voiced in the hearings last month before the House Committee on Interstate and Foreign Commerce by one who served twenty years with the Interstate Commerce Commission and later as a member of the Public Service Commission of the State of New York, Mr. Martin S. Decker.

"Personally, I think very few roads, as they stand to-day, are overcapitalized.

"The Erie road used to be called a horrible example. That road has made so many contributions from income to the capital account in the past dozen years, paying, of course, no dividends, that it may be said to have practically changed the water in its capitalization into actual tangible property.

We know that roads like the New York Central and Pennsylvania are not overcapitalized. The commissioners who have dealt with those roads know that they are not overcapitalized. I know that the New York Central line from New York to Albany alone, on the east side of the Hudson River, with all its great terminal properties in New York and its three and four tracks to Albany and its Albany terminal—I know you could not reproduce that property to-day for the total capitalization of the New York Central, before it took in the Lake Shore. I make that statement advisedly, and I am sure it can be proven. It would take 10 years to build it, in the first place."

Effects of Money Rates.

Since 1910, very few railroads have been able to sell their stocks. This has been due in part to an advance in the level of interest rates which has depressed the prices of securities, and it is of course out of the question for a railroad to sell new stock when its outstanding isues are already quoted below par. Probably this factor of higher money rates has had more to do with the inability of railroads to continue financing themselves with stock than is generally appreciated. During 1908, which was a year of extremely low money rates, the Illinois Central Railroad Co. sold $14,000,000 of its stock at par. The price in the market at that time was $135 a share; the company was earning slightly less than $10 a share and was paying $7 in dividends. In 1917, the company earned $14 a share and paid $7 in dividends, but the price of the stock fell below 86. This low price in the latter year must be attributed not to impaired earnings but to a much higher level of money rates, and the disturbed financial conditions following our entrance into the European war.

Diminished Earnings.

Diminished earning power resulting in waning confidence among investors, has been a more potent factor in preventing the financing by stock. The ratio of net operating income to the book cost of property is the best yardstick available to measure the state of railroad credit. Using this yardstick it appears that in the years 1901-1910 inclusive, the railroads were earning about 5¼ per cent. on their investment. Only in the post-panic years 1904 and 1908 did the return go below 5 per cent., and with the exception of 1908, there was very little mileage in the hands of receivers. After the adverse decision of the Interstate Commerce Commission in the 1910 rate case, net earnings began to shrink. During the three years 1913-14-15, the roads received less than 4½ per cent. on their investment, and in consequence there were over 40,000 miles of road operated by receivers.

Because of the light which they shed on railroad financial history in the past fifteen years, we reproduce the Interstate Commerce Commission's figures showing the ratio of net operating income to the property investment.

1902	5.02%
1903	5.19%
1904	4.83%
1905	5.10%
1906	5.58%
1907	5.61%
1908	4.89%
1909	5.38%
1910	5.68%

In 1910 the railways lost the power to advance rates and the subsequent record shows clearly that they did not receive adequate revenues.

1911	4.92%
1912	4.69%
1913	5.01%
1914	4.12%
1915	4.18%

A pronounced change for the better took place in 1916 and 1917 but this improvement was not permanent enough to restore credit.

Experiences of Baltimore & Ohio and St. Paul Railways.

Since 1907 the railroads have provided new facilities at an aggregate cost of over 5½ billion dollars. The price to the companies of raising this money must have averaged well over 5 per cent. and yet the investment has netted much less. Specific illustrations may bring this fact out more clearly. The Baltimore & Ohio is one of the great eastern trunk lines and one of the oldest railroads in the world. Between 1907 and 1917 it increased its facilities for public service at a cost of $125,000,000; but after making this investment the owners of the property found that their net operating income was nearly $2,000,000 less than it was before. In 1900 the Chicago, Milwaukee & St. Paul Railway Co. supplied property for the benefit of the public of a cost of $218,000,000, and it carried over its lines 8,600,000 passengers and 17,500,000 tons of freight. In 1917 it carried 15,500,000 passengers and 38,500,000 tons of freight, the railroad property then representing an investment of over $600,000,000. To finance the expansion of the plant

the company sold since January 1, 1900, nearly $80,000,000 of preferred stock and over $69,000,000 of common stock at par or higher; and in addition to the sale of this $149,000,000 of stock, the proceeds of the sale of $232,000,000 of bonds have gone into the property. Although their railroad is performing twice as much public service its owners have suffered serious losses. In 1900 the preferred stock was selling as high as $188 a share and receiving 7 per cent. dividends. The common stock was selling at $145 a share and paying 5 per cent. dividends. Since 1917 neither class of stock has been in receipt of a dividend and the preferred sells at 63 and the common at 43.

Under such conditions it is not altogether surprising that investors are somewhat reluctant to take partnership risks in an enterprise so hampered.

Security Values.

The prices of railroad bonds in many cases are now at the lowest levels in twenty years. Issues protected by abundant stock equities and the obligations of companies receiving rentals from the Government largely in excess of fixed charges, are nevertheless selling at prices to yield from 7 per cent. to 9½ per cent. Even these yields do not attract many buyers although industrial stock issues are being currently placed on the market and rapidly absorbed.

The present price level of railroad securities reflects in large measure the apprehension of investors regarding the future. The President has announced that the roads would be returned to their owners at the end of the year. If no legislative action is taken before that time the Federal guaranties will terminate on that date. Of the 162 carriers under Federal control, only 20 have earned their standard return so far this year, while 58 are not even earning operating expenses. The Pennsylvania, for example, is earning only 21 per cent. of its compensation; the Chicago, Burlington & Quincy only 59 per cent.; the Atchison, 66 per cent. For the first seven months of 1919 the railroads as a whole earned $235,000,000 of net operating income, which is $240,000,000 less than the rental payable by the Government for that period. To be sure, improvement has recently been recorded. In the month of May, the roads earned 51 per cent. of their standard return, in June, 64 per cent.; and in July 100 per cent. We believe it unlikely that the President will return the railroads to their owners this year should Congress fail to agree on remedial legislation. It is difficult to exaggerate the financial consequences of a return of the roads without protective measures of some character.

The Cummins Bill.

To safeguard the situation the standard return should be continued in any event for six months, and preferably for a year. The roads cannot be made self-supporting by Congressional fiat. Rates must be readjusted and such readjustment should be undertaken gradually. In the bill which Senator Cummins introduced, it is proposed that the standard return shall be continued for four months from the date that the bill becomes a law, during which period the Interstate Commerce Commission is required to establish rates which shall give the carriers a fair return upon the value of their property. Rates, according to this bill, shall at all times be just and reasonable. In determining them the Commission must take into consideration the interest of the public, the shippers, wages of labor, cost of maintenance and operation including taxes, a fair return upon the value of the property, and also the requirements for additional capital to enable to carriers to perform adequately their duties to the public, and the conditions under which additional capital can be secured. All these elements should certainly be taken into consideration but investors will be guided by the action of the Interstate Commerce Commission in construing such terms.

The Objection to a Fixed Return.

Under the rate making programs suggested by the National Transportation Conference and the National Association of Owners of Railroad Securities, the Interstate Commerce Commission is required to make rates which will yield as nearly as possible 6 per cent. on the aggregate property investment accounts of all the railroads. As both these plans provide for an excess profits tax on earnings of individual carriers in excess of 6 per cent. the net return to the railroads as a whole is estimated to be about 5½ per cent. If railroad credit is to be stabilized this is certainly the minimum return on which the public, in the light of experience, can expect capital to be furnished freely to the railways. In the Cummins Bill it is provided that the Government shall recapture all earnings in excess of a fair return. This we believe to be a very serious mistake. To set a dead-line above which profits shall never go, is a sure way to impair, if not destroy, the enterprise which has produced the magnificent net-work of railways now serving the country. The Interstate Commerce Commission itself has stated,—"We need the best of service. Our railroad management should be the most progressive. It should have wide latitude for experiments. It should have such encouragement as would attract the imagination of both the engineer and the investor."

The Cummins Bill also provides that after seven years if the railroads have not worked out consolidations among themselves, the Railway Transportation Board (proposed in the Act) shall forthwith proceed to group the roads into consolidated systems of not more than 35 and not less than 20. We view with considerable apprehension the practical results of the adoption of such a policy. Needless to

say, it introduces another element of uncertainty for the investor to face at a time when uncertainties should be eliminated rather than multiplied.

The Cummins Bill is frankly tentative and amendments to it have already been suggested. In its present form it will not solve the railroad problem but with suitable amendments it can be modelled into a sound measure of remedial legislation.

The Security Market.

During the month of September the security market was dull with gradually declining prices, particularly in rails and utilities. Foreign government bonds were steady, but the outstanding feature of the month was the activity in United States Government bonds. During the early weeks of the month prices on the Liberty and Victory issues fluctuated through a narrow range of quotations, but during the last half of the month these issues became very active with substantial advances being recorded in practically every issue.

United States Government Issues.

The advance in the Liberty issues was sensational. The First 4¼s during a period of about one week, advanced from 94.90 to 95.30; the Second 4¼s, from 93.16 to 94.28; Third 4¼s, from 95.16 to 96.06; Fourth 4¼s, from 93.18 to 94.04, while the 3½s broke through par for the first time since October, 1918, reaching on September 23, 100.08. The banking houses report a large investment buying of these issues, but the real strength of the market is credited to the activities of the Treasury Department, said to have been buying. According to the official figures issued by the Treasury Department, the supply of Liberty bonds has been reduced about $717,500,000 as the result of purchases for the 5 per cent. sinking fund and payment of estate taxes. It is estimated that by the end of the current bond purchasing year, May 9, 1920, the supply of outstanding war issues will be reduced by over $1,000,000,000. The official figures show that of the four Liberty Loans, amounting to $16,936,995,367, on August 31, 1919, there were outstanding $16,219,457,817. By adding the total amount of Victory issues, $4,500,000,000, to this figure the total war loans of the government reaches the figure of about $20,700,000,000. For some time past bankers have been commenting upon the attractive yield of the government issues, which have ranged from 3½ per cent to 4.90 per cent, and investors are apparently beginning to realize that these bargain prices will not continue for an indefinite period.

New Corporate Financing.

New issues during the month have been in restricted volume and for the greater part in the form of preferred stocks. The larger preferred stock issues include $9,866,100 Proctor & Gamble 6% Stock at 100; $10,000,000 Firestone Tire & Rubber 7% Preferred Stock at 100; $15,000,000 B. F. Goodrich Company 7% Preferred Stock at 104½ and $15,000,000 Willys Corporation 8% Preferred Stock at 100. From September 1 to September 24 about twenty issues of preferred stocks in the amount of $1,000,000 or more were offered to the public, the total par value aggregating $75,000,000. The large corporate issues of bonds or notes were $50,000,000 American Telephone & Telegraph Co. 6% Notes at 99¼ and interest to yield over 6.25%; $15,000,000 New York Central 6% Notes due September 15, 1920, which were largely over-subscribed at 99⅝ and interest, to yield 6.40%, and $5,500,000 Chicago, Rock Island & Pacific one-year 6% notes.

The Municipal Market.

The municipal market during the early weeks of the month was inactive with a narrow fluctuation in prices. Toward the close of the month, however, the activity in the United States Government market seemed to be reflected in municipals and dealers generally reported a wider interest in tax exempt issues. The principal offerings of the month were:

$ 500,000	Chester County, Pa., 4% Bonds on a 4.20% basis
5,025,000	Cleveland, Ohio, 5% Bonds on a 4.60% basis
995,000	El Paso, Texas, 5% Bonds on a 4.75% basis
1,092,000	Essex County, New Jersey, 4¾% Bonds on a 4.40% basis
3,450,000	San Antonio, Texas, 5% Bonds on a 4.80% basis
3,575,000	South Dakota 5% Bonds on a 4.70% basis
807,000	Tehama County, California, 5% Bonds on a 4.80% basis
1,097,500	Yonkers, New York, 5% Bonds on a 4.30% basis

The combined average of forty active issues as reported by the Wall Street Journal on September 24, 1919 was 81.56, compared with 82.21 on August 24, and 81.96 on September 24, 1918.

THE NATIONAL CITY BANK OF NEW YORK

NOTE.—To comply with numerous requests the discussion of Andrew Carnegie's career which appeared in the September Bulletin has been printed in pamphlet form, and will be supplied at a charge of $1 per hundred copies.

1812

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, NOVEMBER, 1919.

The Industrial Conference.

THE President's industrial conference was broken up by the withdrawal of the labor group headed by Mr. Gompers. This group had compelled the conference to occupy itself almost wholly with a question of such complicated nature that an agreement upon it was not to be expected, and would have carried but little weight if accomplished.

The commission consisted of a small group of gentlemen named by the President, undoubtedly for the purpose of exercising a conciliatory and helpful influence upon industry in the present emergency. It is generally recognized that the pressing need of society is not the immediate settlement of all long-standing questions under dispute, but an increased production of the goods of common necessity. The commission had no authority to impose any new rules upon industry; its only hope of accomplishing anything was by avoiding old controversies and concentrating attention upon proposals likely to enlist general co-operation. The situation of society the world over is similar to that which would exist if a great fire had swept over a city, rendering thousands of people homeless and disorganizing the industries. If in such a case a commission consisting of representative citizens of all classes and occupations was called together to help restore the normal life of the community, it would be bad policy for that commission to begin by trying to settle all the questions that had vexed the community prior to the fire, including all the problems that have been in course of evolution from the beginnings of society.

Social Evolution.

The relations between employers and employes in all the industrial establishments of this country cannot be fixed in a conference of this kind. They must be worked out in the industries by the initiative of the parties directly interested and with perfect freedom of action. No authoritative pressure or compulsion is desirable, because it is likely to interfere with the best results, but light is wanted on the subject from every possible source. Assuming that all parties have the same purpose in view, i.e., the achievement of harmony and the greatest possible productivity in industry, we must believe that they will gradually find policies upon which they can agree. But they cannot be coerced into agreement or harmonious action.

It is easy to exaggerate the significance of action by such a conference. If the President's choice in making up the membership had happened to fall upon certain other gentlemen instead of the ones selected, the vote upon the critical resolution easily might have been different, but does anybody suppose that the course of industry in the United States would have been very much affected thereby? Social development is not greatly influenced by such casual incidents.

Mr. Gompers' Resolution.

The resolution on which the conference split was offered by Mr. Gompers as follows:

> "The right of wage earners to organize without discrimination, to bargain collectively, to be represented by representatives of their own choosing in negotiations and adjustments with employers in respect to wages, hours of labor, and relations and conditions of employment is recognized."

The reader will naturally wonder what all the contention is about. Does not labor now have the right to organize, and as a matter of fact is not Mr. Gompers at the head of a very powerful federation of labor organizations? Nobody has disputed the right of labor to organize and to bargain collectively. But the methods of bargaining are of some complexity, and Mr. Loree, speaking for the employers' group in the conference, said that it "would not be led into approving a collective bargaining resolution which did not clearly define the methods and circumstances under which it would take place."

The employers' group took this position because Mr. Gompers was avowedly seeking to lay down a rule under which the United States Steel Corporation would be compelled to recognize the officials of the American Federation of Labor as the representatives of its employes, although it is now proved that the Federation officials have no standing with a majority of the Corporation's employes.

The Attempt to Bargain for the Steel Employes.

The facts as to the situation in the steel industry are now well known. The Federation of Labor had been for a year conducting a campaign to bring the steel employes into its camp, and obtain authority to represent them in collective bargaining. It delegated to this work a committee made up in part at least of radical agitators, whose real intent is to overturn the existing order of society, and whose efforts were consistently directed toward inspiring the workmen with a spirit of class hatred and hostility toward their employers. The strike has put the pretensions of this organization committee to the test. It has shown that the committee never did represent a majority of the employes in the industry, and that it had very little standing with the American employes, although many of the latter were thrown out of work by the absence of other classes of labor.

In short, the issue forced by Mr. Gompers upon the conference was not over the right of labor to organize or bargain collectively but over the right of employers to decline to negotiate with outsiders whom they have reason to believe do not in any sufficient or proper sense represent their own employes. It was an attempt to compel the steel companies to negotiate with Fitzpatrick, Foster and Ryan, regardless of the wishes of the great body of employes. It is obvious that recognition by the companies would be of great assistance to the organization committee in bringing the employes into line.

Collective Bargaining Not a Panacea.

The excuse for making an issue over this phase of collective bargaining would have to be that it was necessary to peace and efficiency in industry, and thereby would promote the general welfare. The argument is that the peace of the community is disturbed by the steel strike, but the Commission was confronted with evidence on every hand that collective bargaining through the Federation of Labor does not assure industrial peace. Two great strikes have been on in New York City in which the authority of the unions was disregarded by the members of the organizations, and the employers and public put to great inconvenience and loss. A witness before the Senate Committee investigating the subject said a few days ago that of 70 recent strikes within the Federation of Labor, only eight had been authorized. In short, collective bargaining is not making a record just now to warrant the claim that it was the only subject worthy of the Commission's attention.

Bargaining in the Coal Industry.

Moreover, instead of looking backward at the steel strike the Commission would better have looked forward at the threatened coal strike. This has the look of something far more serious to the public than the state of affairs in the steel industry, and the Commission might have noticed that there has been collective bargaining in the coal industry for many years. Indeed collective bargaining has been under development in the coal industry long enough to now include all parts of the country, so that at the meeting held in Cleveland recently it was possible to make arrangements for closing nearly all the coal mines in the country at once, precluding the chance that any territory in which a strike was called might be supplied with coal from any other producing district. This is collective bargaining developed to its highest efficiency, with the public facing a great calamity and apparently helpless. The officials authorized to bargain for the miners collectively, do not offer to "bargain," or negotiate, at all. They have called the strike and their position up to the publication of President Wilson's statement was that unless the operators granted the terms that had been named the mining of coal would cease.

Bargaining With the Railroad Brotherhoods.

One of the railroad brotherhood chiefs is quoted as endorsing the withdrawal of the labor group from the conference, and saying that collective bargaining had been maintained on the railroads for thirty years and had been successful. It is well to have the public reminded of the power of the railroad brotherhoods and their willingness to use it. Collective bargaining with them also has developed to the point where bargaining is not the word for what occurs.

All policies that have to do with industrial relations must be judged by their effects upon the public welfare, and with the coal strike in prospect it is in order to judge whether all the weight of public opinion should be given to promote the complete unionization of industry and the establishment throughout of collective bargaining under highly centralized control.

It is possible to not only agree to the right of labor to organize and bargain collectively but to the desirability of its doing so, in order that it may protect its interests and be represented by leaders of its own choosing, without wanting to see society entirely helpless in the hands of these organizations. The country certainly does not wish to vest all authority over the every-day life of the community in them.

How Labor May Win Its Way.

They have great power now, and their stoutest champions must admit that it is not always used wisely. They will be less likely to abuse it if they do not have everything their own way. The best check upon power is the necessity to justify its use. Organized labor can win its way over all opposition by demonstrat-

ing its service in industry, and public sentiment should require it to win its way in this manner. It should demonstrate that it has the intelligence, understanding of economic law, breadth of view, sobriety of judgment and consideration for the public interests that properly belong with the vast powers to which it aspires, before appealing to the public for absolute control.

The Government is at Washington.

If organized labor is conceded the right to tie up all the industry and commerce of the country at its own will our form of government will have been changed. Authority over the community life will have passed from the regularly elected representatives of the people to the labor organizations. The public wants labor to have a fair show in struggles with capital, but not supreme power. Mr. Gompers is quoted as saying upon the pending bill proposing to forbid strikes on the railroads, that he would not hesitate to enter a just strike despite such a law. This attitude is clearly a mistaken one because it is claiming a supremacy over the law which Mr. Gompers never would concede to his antagonists. It is the first principle of organized society that everybody shall be equal before the law, and that no individual shall put his personal judgment above the law. The overthrow of this principle would mean the destruction of order and government. The rule of reason and of the ballot-box would be overthrown, and society would lapse back to the rule of force.

The Coal Situation.

The coal miners, under agreements with the Federal Coal Administration, have had wage advances aggregating about 70 per cent. since April 1, 1916. The official statement issued by the United Mine Workers, dated October 11, states that figures officially collected show that the average income of miners in Illinois for 1918 was $1,434, in Indiana $1,400, in Ohio $1,450, and in Western Pennsylvania $1,200. The present demands are for a 60 per cent. increase of pay, five working days to the week and six hours to be a day's work.

The agreement under which they have been working, made in 1917, was to be binding until the end of the war, or April, 1920. The operators claim that it is still in force, pending a proclamation by the President that the war is ended. Dr. H. A. Garfield, who as Fuel Administrator made the agreement for the Government, has written a letter to the miners in which he holds that the agreement is still binding, but the miners insist that the war is ended, and wish to have their agreements made and terminated hereafter on November 1, instead of on April 1.

The miners in defence of the five-day week and six-hour day claim that with the miners returned from the army this working arrangement will produce the amount of coal required. The operators deny this, but in any event the argument is a poor one. There is plenty of work on the farms and in other industries, and no necessity for employing labor where it is not needed. The miners also have a grievance on account of lost time in the summer season, which they say often cuts down their earnings even at high rates to amounts insufficient to support a family properly. There is no doubt some basis for this claim. It is said that during the present year car shortage has been responsible for much idle time for the miners.

The operators strongly urge that from now to April 1 next there is an assurance of full time and that at present rates high wages are assured. They object to changing the time of making contracts from April to November, on the ground that delay in making an agreement at the latter is always certain to inconvenience the public.

Reason Should Rule.

The American public is inclined to take a sympathetic attitude toward claims on behalf of the miner, on the ground that the occupation is one of hard labor with a degree of danger attached, but the public has its own just claims to consideration, which the miners and all other organized bodies are bound in fairness to recognize. The public's interest in coal production is vastly greater than that of either miners or operators, and if the latter are in deadlock steps of some kind will have to be taken to protect the public interest.

It is always to be hoped that questions of this kind will be settled by common consent upon principles which may be applied not only in the one case but whenever similar cases arise. There is reason to believe that given time for consideration they will be settled in this manner, for notwithstanding the bitter clashes which occur all men have a sense of what is fair and right, and the great majority desire that what is right shall prevail.

Labor leaders have something to learn, and in this are not different from employers. All people learn from the opposition they meet, and both sides of the industrial controversy may profit in this manner. The members of labor organizations have much to learn about the obligations which attach to bargaining. The first requisite of a bargain is that both parties shall be bound.

In short, the industrial problem is largely a problem of practical education upon the obligations and responsibilities which belong to all parties concerned, and particularly of their responsibilities to the public. It is not merely

or mainly a question of balancing the rights of the contestants or of helping one side against the other.

The real interests of labor are inseparable from the interests of the community as a whole. Labor cannot suffer by having the community welfare safeguarded, and on the other hand whatever injures the latter is injurious to the former. The agitators usually say that the rich at whom their animus is directed do not compose over two or three per cent. of the population. Isn't it a wild idea to think of paralyzing all community life, of freezing or starving the entire population in order to coerce or punish three per cent? Will not 97 per cent. suffer more than 3 per cent?

Further Consideration of the Value of Railroad Properties.

In the October "Bulletin" we published a discussion of the value of railway properties, calling attention especially to the large amount of common stocks sold from time to time by leading railroads to their stockholders at par or better. In this connection an extremely impressive statement as to the value of the Pennsylvania System is made by Mr. A. J. County, Vice-President of the Pennsylvania Railroad Company in a letter recently received by us. He says:

> I am greatly impressed with the clear and concise presentation of the railroad situation which appears in the Bank's October Bulletin, and believe it will be very helpful in acquainting the average stockholder and investor with the nature of the ailments of the roads and the treatment that is essential to rehabilitate them.
>
> Referring to the statements as to over-capitalization, I feel that the author would be interested in noting the facts as to the Pennsylvania R. R. Co. as set forth in the attached copy of a memorandum to Mr. T. DeWitt Cuyler, Chairman of the Association of Railway Executives, which shows that during the period December 31, 1900, to December 31, 1917, the years used by Mr. Glenn E. Plumb in his recent charges before the House Committee on Interstate Commerce, the premium on stock issues and conversions amounted to over $40,000,000, and that taking the Pennsylvania Railroad System as a whole the cost of the property exceeds by over $400,000,000 the outstanding par value of the total stock and bonds of the System in the hands of the public.

The Pennsylvania is one of the greatest railroad systems in the world. For 70 years its operations have been conducted with efficiency and its finances handled with conservatism. Its stock is owned by over 113,000 persons. The fact that the Pennsylvania Railroad is under-capitalized by no less than $400,000,000 is of course one of the reasons for its very high credit standing. It should not be overlooked, however, that while 6% was paid on the par of the company's stock, the undercapitalization resulted in 1918 in the payment as interest and dividends to investors of an amount equivalent to only 3.91% of the total property investment of the Pennsylvania System. Notwithstanding the great depreciation in the purchasing power of the dollar, Pennsylvania stockholders are receiving the same moderate rate of dividend as was paid ten years ago, namely, 6%.

New Tentative Valuations.

The Department of Valuation of the Interstate Commerce Commission has recently filed a tentative value of the Boston & Maine System. But since the figures are subject to modification, the Director of the Bureau of Valuation and the receiver of the Railroad Company have decided not to disclose the details at present. The aggregate figures, however, show a valuation of nearly 10% in excess of the total capital issues of the entire system, which amount to approximately $211,800,000. The Company's engineers claim that some elements of value are omitted by the engineers of the Valuation Department and it is therefore expected that the final valuation may show some increase over the tentative figures. Within the so-called Boston terminal area, the lands of the Boston & Maine proper are determined by the Commission to have a value of about $6,300,000, while if the holdings of the subsidiaries within the area be included, the values are nearly $19,000,000. The Boston & Maine has $3,150,000 of preferred stock and $39,500,000 of common stock. The Company has been in the hands of a receiver since 1916. The common stock has a market value today of approximately $32 a share. Between 1901 and 1912, the Boston & Maine sold 176,024 shares of stock realizing $23,593,000, or an average of $134 per share. Some of this stock was sold as high as $196.50 a share.

The net earnings of the Boston & Maine for the half year ended June 30th last, were running at the rate of less than one-half of one per cent. per annum on the value of the property as found by the Interstate Commerce Commission.

Mr. Plumb Refuted.

When the merits of the Plumb plan were called to the attention of Congress by its proponents, the claim was made that the cost of the railroads was over-stated to the extent of some 8 to 10 billion dollars. Now, it is a well known fact that all additions to the book cost of road and equipment since 1907 represent actual cash invested. Therefore, the inflation, if any, dates prior to 1907. In that year the total book cost was, in round figures, 13 billions and the total number of miles of road in the country was approximately 230,000. If Mr. Plumb is right in assuming that the cost of the roads was over-stated by 8 billion dollars, we must conclude that 230,000 miles of road were built at an average of less than $22,000 per mile of road. In 1907 the railroads of the United

States efficiently handled $2,589,000,000 of business. Many of the roads were double tracked, some had three or four tracks. In that year the cost of government owned railroads in New South Wales and Australia was $60,000 a mile, and that of the Inter-Colonial of Canada was over $60,000 a mile. The statement is made on good authority that never in any country could even a single track railroad be built and equipped for $22,000 a mile, or for any amount approaching this sum. This contention is supported by all of the tentative valuations so far reported. The cost of reproduction new per mile of the roads which have been tentatively valued, follows:

Boston & Maine System	$120,000
Kansas City Southern	71,700
Winston-Salem Southbound	61,400
New Orleans, Texas & Mexico	58,700
Central of Georgia	43,800
Atlanta, Birmingham & Atlantic	41,700
Norfolk Southern	36,000
Texas Midland	31,700

These Interstate Commerce Commission valuations, to be sure, are made as of June 30, 1914, and so do not accurately represent the values of the properties in 1907, nevertheless the conclusion is fully justified that none of these roads could have been reproduced in 1907 as low as $22,000 a mile.

Improvement in Railway Earnings.

In the six months period ended June 30th last, the railroads of the country earned $157,000,000 net operating income, equivalent to only 40% of their standard return accrued in that period. In July and August, however, the roads succeeded in earning $169,000,000 net, or more than they had earned in the entire prior six months. This improvment is to be explained in part by an increase in the volume of freight moving, although the volume is still less than it was last year. The following tabulation shows the fluctuations in the net ton miles compared with the same months in 1918 reported by the United States Railroad Administration, from which it will appear that the low ebb of traffic was recorded in the month of April.

January	Increase	11.3%
February	Decrease	12.1%
March	"	14.6%
April	"	24.6%
May	"	11.6%
June	"	13.6%
July	"	9.9%
August	"	10.8%

The operating ratio, that is, the amount consumed out of each dollar by operating expenses, has fallen from a high point of 92¼% in February to 76% in August. As the normal operating ratio is under 70%, it is evident that the ratio is still too high.

Furthermore, it is disturbing to know that one of the reasons for the decrease in operating ratio has been the curtailment of expenditures for maintenance of equipment, which was cut by over 20% during August.

Earlier in the year it appeared that the Railroad Administration would be fortunate if the roads earned as much as $500,000,000 net for the full year, but at the present time, if the current improvement is carried on, the roads should earn very nearly as much as they did in 1918, namely, $680,000,000 . The profit and loss statement of the Railroad Administration covering the operation of the roads for the year 1918 and the first six months of 1919 shows a deficit of $575,549,644.

Rate Increase Imperative.

Even with the betterment in earnings referred to above, the railroads will be in a precarious position if they are returned to their owners on the first of January next without protective legislation. Testifying before the House Committee on Interstate Commerce, Judge Lovett, President of the Union Pacific System, stated: "If you propose to turn the railroads back without making provision for them to collect expenses, it simply means that the railroads which are not very strong financially and not able to weather the storm, will go to the wall and those institutions and people dependent on their securities will go with them."

When Senator Cummins first introduced his bill on September 2nd, his speech indicated that he also was fully alive to the seriousness of the railroads' financial position.

The sober fact confronts us that of the 20 roads that earned over 100% of their standard return in the first six months of this year only 4 operate over 1,000 miles of road, while all of the 20 roads represent less than 6% of the mileage of the country. Considering the railways as one system, they are earning today only about 3½% on their investment. In 1914-1915 when the earnings dropped to approximately 4%, some 40,000 miles of railroad were forced into the hands of receivers.

As it is generally agreed that there is little possibility of increasing the net earnings of the roads by decreasing operating expenses, the situation must be met by an increase in rates.

Government Declines to Ask for Rate Increase.

On October 7th, Director General Hines wrote a letter to the Chairman of the Association of Railway Executives informing him that any proposal for a general increase in rates must come from the railway companies themselves and would not be initiated by the Railroad Administration. In reply to this suggestion the Association adopted a Resolution respectfully insisting that the duty rests upon the Government to restore on its own initiative and by its own action the relationship between

revenues and expenses which the Government, in increasing expenses, has destroyed. The Director General set forth his position in a statement issued a few days ago, as follows: "There is no duty whatever, either legal or moral, resting upon the Railroad Administration to negotiate for the benefit of the railroad corporations rates which it believes to be inexpedient to initiate for its own benefit. On the contrary, the railway companies have the power to protect their interests in this matter just as fully as they have had in the past and they ought to resort to it unless they choose to stand on the rates as they are."

In a resolution introduced in the House, Rep. Fitzgerald (Mass.) indicates his sympathy with the position of the Railway Executives. His Resolution reads:

"Whereas, The operating ratio of all railroads has increased from 65 per cent in 1916 to 87.11 per cent in the first seven months of 1919; and

"Whereas, Anything over 75 per cent is known to be fraught with danger and in many cases indicates an imminence of receivership; and

"Whereas, If the roads are returned to private ownership at the end of the year with the present rate as now intended, bankruptcy must result to many of them, with corresponding evil to thousands of innocent people who look to their representatives in the popular branch for guidance and protection; Therefore be it

"Resolved, By the Senate and House of Representatives of the United States of America in Congress assembled, That Director General Hines be requested to prepare and put into operation at once a system of rates that will give proper service to the public, a reasonable dividend or protection to the investor, so that when the railroads are returned to their rightful owners the honor of the United States Government in handling of these properties will be amply safeguarded."

As there is no time to be lost, we feel strongly that the Railway Executives should move at once to initiate a new schedule of rates even if they are somewhat embarrassed by the fact that the Government is in full possession of their properties.

Discussion of Cummins Bill.

The Cummins Bill in amended form has just been reported from committee to the Senate. We indicated last month some of the objections to this bill but expressed our belief that with certain amendments it would probably reach the heart of the railway problem, which is the rehabilitation of credit. The railroads have only one thing to sell, and that is, transportation; and the price of what they sell is the rate. The restoration of credit therefore depends upon the establishment of adequate and compensatory rates. On this crucial point, Section 6 of the bill in the amended form provides that the rates prescribed for each district shall be as nearly as possible sufficient to produce a net operating income for all the roads in that district of 5½% annually on the value of the property as determined by the Commission. The Commission is also authorized, in its discretion, to increase the fixed return to 6%, but the additional ½% is to be used to cover the cost of non-productive improvements on the property.

Congress Should Instruct the Commission.

We are convinced that it is absolutely essential that Congress shall instruct the rate-making body to maintain rates which will produce a stipulated return, and while we think that the additional ½% should be fixed and not left to the discretion of the Commission, an assured return of 5½% will go a long way towards solving the railroads' problem. Last month we expressed the opinion that a return of 5½% would be the minimum on which it was reasonable to expect new capital to be attracted. In the past, the railroads have been regulated on the theory that they ought to be permitted to earn a reasonable return on the fair value of their property; but the rule was theoretical and not practical, for no one could prove what fair value was, neither could a reasonable return be agreed upon. One of the unknown quantities in the equation is in process of determination as a result of the Federal Valuation Act. The other unknown quantity will be settled if this bill becomes a law.

The Interstate Commerce Commission itself desires Congress to instruct it in the matter of rate-making. The following is an extract from a statement of Commissioner Clark.

"The question of what constitutes just and reasonable returns to the carrier is left for the administrative tribunal to decide, insofar as it could determine rates on that basis. Some people come before us and argue that 3 per cent is liberal enough. Others say that it ought to be more, 6 or 7 or 8 per cent. Now, in the light of all the circumstances, what is a reasonable standard of return for these public service utilities that are subject to governmental regulation at the hands of Congress, through an administrative tribunal to which Congress delegates its powers? I think that it would be simpler, I think it would avoid endless controversy, and would put an end to interminable discussion and argument, if the law laid down the standard which it recognized as reasonable, just as the law lays down the recognized standard of interest rates in the various States."

Government Advances.

The Cummins Bill has been described as the first broad, friendly legislative expression towards the railroads in probably the past fifteen or more years. In addition to the establishment of a minimum rate of return it proposes that the indebtedness of the roads to the Government for capital expenditures during Federal control, is to be funded. The Government is to carry this indebtedness for a period not exceeding ten years at 6% per annum. In view of the need of the railroads to raise large amounts of new capital at once it is very fortunate that they will not be compelled to go into the market at this time for funds to repay the Government's advances which are believed to exceed one billion dollars. The bill also provides for

a return of the working capital that was taken over with the roads, and which is estimated to amount to about $200,000,000.

The Consolidation of Properties.

We have previously indicated our disapproval of that provision of the Bill which empowers the Railway Transportation Board (a new body created by the Act) to group all of the roads of the country into large competing systems of not more than 35 and not less than 20. While the necessity for the absorption of smaller corporations is apparent, there being no less than 1590 companies reporting to the Interstate Commerce Commission, we consider that such impending arbitrary consolidations would have an extremely detrimental effect on the mind of the investor. The policy of the Bill, recognizing that under existing conditions some roads show very large earning power and some roads small earning power, aims to remove this discrepancy through consolidations, and it is well said that somebody must do the unprofitable business and the way to do it is to combine the unprofitable business with the profitable. We believe, however, that a stabilization of railroad credit will result in voluntary consolidations which will prove more efficient agencies of transportation than any that could result from the exercise of arbitrary rulings.

Division of Excess Earnings.

Originally, the Cummins Bill provided that the Government should recapture all earnings in excess of a fair return. In the amended form the Bill provides that if a company secures an operating income above 6%, one-half of the excess between 6 and 7 per cent shall be placed in a company reserve fund and the other half turned over to the Railway Transportation Board for a general railroad contingent fund. Above 7%, the company will place one-fourth of the excess in its reserve fund and three-fourths will go to the general railroad contingent fund. When the reserve fund has accumulated an amount equal to 5% of the value of the property, its accumulation must cease and one-third of the operating income above 6% shall thereafter be retained by the company and two-thirds paid into the general railway contingent fund. The company reserve fund may be drawn upon to pay dividends or interest if the company's income falls below 6%, while the general contingent fund is to be used for the general advance of railway interests.

The constitutionality of the recapture of these so-called excess earnings by individual companies has been called into question, but it is a point on which eminent lawyers differ. In limiting profits the one point that Congress must consider is the necessity of providing an incentive for enterprise and efficiency. In this respect the amended bill marks a substantial advance over the original draft.

The Return of the Roads.

The Railroad Administration is making plans to return the railroads to their owners on December 31st, in accordance with the President's statement. In view of the crippled earning power of the roads we cannot for a moment conceive of Congress permitting the roads to be returned without legislation protecting their financial stability. Mr. Hines has called attention to the impairment of morale in the railroad organization, and it is known that there has been virtually a complete suspension of improvements to railroad property.

With the question of the ratification of the peace treaty absorbing the attention of the Senate and the possibility of an adjournment of Congress for a short period before the opening of the regular session, it seems unlikely that adequate legislation could pass both Houses and be approved by the President before late in December. But we believe that serious injury would be done railroad credit if the approach of the first of the year finds the problem still under discussion. No more important piece of legislation is before the people of the United States and it deserves careful, not hasty consideration. The need for haste would be eliminated if Congress would pass a bill extending the period of the Federal guaranties for a further six months. The Cummins Bill fully recognizes the necessity for a continuation of the guaranties and provides that the standard return shall be continued for four months from the last day of the month during which the bill becomes a law, in which period the Interstate Commerce Commission must readjust the rate structure to bring back the income and outgo of the railways into balance. In England the guaranties have been prolonged by statute for an additional two years with a view to affording time for consideration and formulation of future transportation policies. It is undesirable and should not be necessary to prolong the period of guaranties in this country beyond June 30, 1920.

The Bond Market.

Since the last Bulletin was issued there has been a general improvement in the security market, and while the activity of the early Fall was largely the result of trading among dealers, a real investment demand from private investors and institutions has resulted in a steady tone, with firm prices. During the second week of October the market broadened and the prices of the more active investment issues advanced from two to three points compared with recent quotations. These prices, however, are still about 2½ points below the quotations of last October.

A study of the comparative prices and yields of 35 selected railroad bonds which are widely held by conservative investors shows a deprecia-

tion in prices of from 8 to 30 points as compared with 1917, while the average yield has increased from 4.53% to 5.86%. During the middle of the month there was an upward trend in rails, which was the result no doubt of a realization on the part of investors of the attractiveness of the yields and a feeling of confidence that Congress will pass legislation which will place the companies on a sound financial basis before they are returned to private ownership.

Liberty Issues.

Liberty issues continued strong over the first of the month, the First Liberty Loan Second Converted 4¼s of 1947 reaching a high level of 102. This issue was the result of converting Liberty 3½s into Second 4¼s, and it is estimated that there are only about $3,000,000 outstanding. During the month the Liberty issues became very active, with declines reported in practically all except the 3½s. October 15 was reported the third largest Liberty bond day of the year, with a total turnover on the Stock Exchange of $14,367,000. The high record day was September 9 with a volume of $16,972,500, and the second largest was April 14 with $15,881,500. On October 15 the Stock Exchange reported sales of $5,929,000 Fourth 4¼s. The decline in this issue was credited largely to the liquidation of these bonds, many of which have been carried by the banks at the coupon rate. The banks notified holders that this rate would be advanced on the 25th of the month, and the prices have eased off from the recent high of 94.80 to 93.40.

The demands for totally tax exempt securities continued in large volume, the 3½s reaching 101, the high for the year, compared with 102.50 on August 22, 1918. U. S. Panama 3s of 1961 were also in demand, and a new offering of $1,500,000 Territory of Hawaii 4¼% Bonds proved attractive to large buyers on a 4.20 basis, this issue carrying the same tax exemption privileges as the Liberty 3½s.

New Issues.

New issues for the month were in larger volume with corporate finance still favoring stock issues. The larger corporate issues of bonds and notes were about $35,000,000 compared with $125,000,000 preferred stocks.

The most notable foreign issue in this market since the $500,000,000 Anglo-French loan of 1915 is the offering of $250,000,000 of 5½% notes or bonds of the United Kingdom of Great Britain & Ireland dated November 1, 1919. Subscribers have the choice of notes maturing in three years or bonds maturing August 1, 1929. The notes are offered at 98, to yield about 6¼%, and the bonds at 96¼, to yield a little over 6%. These notes and bonds are payable in New York in dollars, and free of all British taxes. Moreover, they are convertible at the option of the holder into National War 5% Bonds (Internal sterling loan payable at maturity at 105), due February 1, 1929, at the fixed rate of $4.30 per pound sterling.

This issue combines a generous interest yield with a highly probable profit through the exchange and conversion features. The long term maturity in reality is a 9¾-year option on sterling exchange at approximately 4.15, the present prevailing level, assuming 100 as an average price for the National War Loan during that period. Assuming 4.30 for exchange at the maturity of the British War Loan at 105, the 10-year bonds then converted would yield the present purchaser approximately 6.46%. If exchange were then normal (4.86) conversion would reresult in an interest yield of approximately 7.46%. It is therefore estimated that investors can assume a minimum interest yield somewhere between these limits. Should exchange, however, move toward normal prior to the maturity of the War Loan and conversion and sales are made at an earlier date, the interest return would be materially higher.

The $250,000,000 issue is made to provide funds for the redemption of about $135,000,000 of dollar notes falling due, and for the purchases or payment which the British Government may wish to make in this country. Some part of it may be transferred to private parties having payments to make in the United States.

Preferred Stocks.

Since the first of the year it is estimated that the total issues of preferred stocks by corporations exceed $600,000,000, these figures including issues in excess of $500,000. In addition, a number of corporations have sold large blocks of common stocks. This indicates the confidence of investors in the strong financial position of American industrial corporations which have built up large surpluses and working capital, insuring an ability to pay dividends for an extended period.

Municipal Securities.

The municipal market has been active throughout the month, the demand favoring the higher yield issues. Practically all the new offerings yielding from 4.50% to 4.85% have been quickly absorbed by private investors. Prices have been firm, with the larger cities yielding from 4.20% to 4.50%. The high price of the month was recorded in an issue of $627,000 Springfield, Mass. Serial 4¼% Bonds, which were offered on a 4.05% basis. The more important issues of the month include:

$2,160,000	Chatham County, Ga., 4½% Bonds, to yield 4.75%
3,621,000	Pittsburgh, Pa., 4½% Bonds, to yield 4.20%
1,000,000	City of Toledo 5% Bonds, to yield 4⅝%
900,000	Clarksburg, W.Va., 5% Bonds, to yield 4.85%

The combined average of forty active corporate issues as reported by the Wall Street Journal of October 24 was 82.49, compared with 81.56 on September 24 and 85.07 on October 24, 1918.

Money and the Exchanges.

Money has been in strong demand and up to the last week of October bank loans were increasing. The week ended the 24th ult., saw a small decline in the totals of the Federal reserve banks and of the New York Clearing House banks, but the outlook is for close money through the rest of the year. Call rates have been very uneven, running up to 15 and even 17 per cent. repeatedly. This is of no great significance, however, except as showing that the New York banks have enough to do to keep their commercial customers supplied. The rate to the latter is about 5½ per cent.

The foreign trade of this country in September, summarized, was, exports $593,000,000, imports $435,000,000, trade balance $158,000,000, which compares with a balance of $338,000,000 in August, $225,000,000 in July and $625,000,000 in June. The August balance is the smallest for any month since July, 1917, and the decline shows how easily the situation may turn over against us under the high premiums existing in all foreign markets upon American exchange.

Exchange Rates.

Exchange rates have fluctuated during the past month within about the same rates as before, although the general level is a little lower. The table is as follows:

	Unit Value	Ex. rate Sept. 24	Ex. rate Oct. 27	Discount from mint par
Canada	1.00	.9675	.9637	3.6%
Germany	.2382	.0450	.0350	85.3%
Italy	.1930	.1013	.0962	50.2%
Belgium	.1930	.1163	.1163	39.7%
France	.1930	.1176	.1156	40.1%
England	4.8665	4.1825	4.1800	14.1%
Switzerland ...	.1930	.1795	.1770	8.3%
Holland	.4020	.3750	.3800	5.5%
Denmark	.2680	.2175	.2150	19.8%
Norway	.2680	.2340	.2290	14.6%
Sweden	.2680	.2450	.2410	10.1%
Spain	.1930	.1898	.1925	.3%
Argentine	.9648	.9660	.9650	Par
Japan	.4885	.5100	.5075	3.9%*

* Premium.

The $250,000,000 offering of British bonds in this market of which the details are given in our bond article carries an unusual opportunity to obtain a call on sterling exchange, good for ten years.

The Belgian bond issue which was impending a month ago did not come off, for the interesting reason that London underbid New York on the proposition. A London credit, however, does not afford the most favorable means of making purchases in America, and there probably will be other opportunities to do business with the Belgians. All accounts agree that Belgium is regaining her industrial output faster than any other country on the continent.

International Conferences.

Two very important international conferences have been held in this country during the past month, the cotton conference at New Orleans and the financial conference at Atlantic City. Both were attended by very important groups of business men from Europe. The New Orleans meeting was devoted to the consideration of the cotton industry and occupied with discussions in which American growers and foreign manufacturers met and compared views as to the means by which the industry might be put on a more economical and efficient basis. The Atlantic City meeting was occupied chiefly with the problem of providing credit to enable the countries of Europe to buy what they need in this country. The delegates at both conventions felt that the meetings had been well worth while.

The Silver Market.

The silver market has been in an excited state during the past month, rising on the 29th to $1.28¼ per ounce, under strong demand for remittances to Asia. As the coinage value of the United States silver dollar is $1.29, the price is close to the point at which it would pay to melt our existing stock of silver dollars for sale as bullion. The total stock in the country on October 1, 1919, according to the Treasury figures, was $308,145,759. Of this the sum of $159,090,586 was held at that date in the Treasury against Treasury certificates in circulation. If the price goes above the mint parity these certificates will be gathered up and presented for redemption, but as the certificates are mainly in denominations of $5 and under they may not be presented very rapidly, and it remains to be seen whether the supply of metal thus obtainable will halt the advance. Approximately $260,000,000 of silver dollars have been melted for export since April, 1917. One reason for thinking that a halting point may have been reached is that the silver coinage of Europe is in the same situation, worth more as bullion and for export, than with the mint stamp. If no official obstacles are raised to its exportation a very large amount of silver will be available and it is conceivable that exchange rates between Europe and the United States may be supported by the movement.

General Business Conditions.

The great staple products of the middle west, corn and hogs, have suffered a very heavy decline in the last three months. The last week in July cash corn and September delivery were close to $2 per bushel in Chicago, December touched $1.97½ and May $1.71, while at this time the December delivery is about $1.23. Hogs reached $23.60 in Chicago early in August and now are about $10 below that. These are very heavy shrinkages, and the farmers of the west feel them keenly. They feel that they are taking the brunt of the government's efforts to reduce prices by forcing stores on the market. Nobody has wanted to carry foodstuffs in storage, and as the immediate outlet would not take the current product prices have broken. Of course prices would have had to come down eventually if supplies continued in excess of demand, but the market would have adjusted itself gradually and naturally and nobody would have had any cause for complaint. Instead of this process the market was under artificial pressure, without normal support, and the action was precipitate. The exports of pork products have been declining since June, and in August were less than one-half those of June, a situation very likely due in part at least to the exchange situation.

The decline is in line with the theory that as Europe gets back to normal food production food prices in this country will fall, and that this should lead to other declines. A decline in the purchasing power of the farmer population will affect all industry.

Dairy products on the other hand have advanced recently, after declining in August under the government's cost of living campaign. Butter is up 12½ to 15 cents per pound at wholesale from the low point, which however is little if any above the level at which it was stored in the early part of the season. Exports are large, particularly to Belgium, and in the case of that country have been financed by its government borrowings.

Sugar Supply.

The supply of sugar is so short that the official Sugar Equalization Board, which still has authority over distribution has required a return to the rationing system in the retail trade. There is no shortage as compared with the supply in previous years, as the distribution of sugar in the first nine months of this year was 18 per cent. greater than in the corresponding months of 1918; the shortage is compared with demand. Various opinions are offered as to this increased consumption, one view being that prohibition has caused a larger consumption of soft drinks in which syrups are used, and also of candy, while some take the view that the stocks of dealers and consumers have been privately increased against the probability of higher prices when price-control ceases. For the last two years the United States Government, through the Sugar Board, has bought the entire Cuban crop, the 1918 grinding at 4.61 cents per pound and the 1919 grinding at 5.5 cents. The crop now maturing in Cuba, and from which the sugar supply of 1920 must come has not been bought, and it is probably now too late to buy it, as much of it has already been contracted to private buyers at prices now ranging above 7 cents. The Cuban producers are insisting upon a free market, just as our cotton growers and wheat growers have wanted a free market, and now that the war is over it is improbable that the Cuban Government will coerce them. The world supply is short because of the great falling off of beet-sugar production in Europe, although the Cuban crop now about ready for grinding is the largest ever grown. To sum up, sugar is another article of common use the supply of which has been temporarily reduced by the war, although there seems reason to believe that when Europe resumes normal production the supply will be greater than ever before. The prospect now is for higher prices throughout next year.

Lumber Trade.

The United States National Bank of Portland, Oregon, has issued the fall number for 1919 of its quarterly digest of business conditions. It reports general business conditions very prosperous in that section of the country. The grain crops of Oregon and Washington are the largest ever grown, and fruit crops are at least normal. In Idaho and Montana, however, the crops have been very light on account of drought. The lumber market has had in the last 60 or 90 days the most sensational rise known in many years. Manufacturers are shipping lumber clear through to the Atlantic coast, and are looking for years of prosperity, counting on the rapid exhaustion of the southern forests.

General Trade.

There has been no falling off in trade over the country. Payments through the banks show astonishing figures, 30 to 50 per cent. over a year ago. The pressure for goods is unabated, and naturally there are few instances of a downward tendency in prices, apparently none in manufactured goods. The output of iron and steel has been reduced by the strike, and there is no sign of weakness in that quarter. Building materials are very firm, with talk of higher prices. Textile goods are all in strong demand, with supplies insufficient to meet the demand.

Labor Outlook.

In short, the outstanding feature of the business situation is a shortage of everything, and, resulting therefrom, high prices, labor disturb-

ances, and an outlook clouded by uncertainties. At the moment the threatened strike of the coal miners is the most serious menace, but even if it is adjusted the outlook for industrial peace is not encouraging. The crops are harvested over the world, and while there is enough to feed the world, there is not enough surplus to materially lower the general level of prices, although we have seen that meats have fallen. This situation is fixed until another crop is grown, and calculations must be made accordingly. It does not support the hope that costs may be lowered; on the contrary, influences are still strong in the other direction.

The steel strike has diminished in importance, so far as its own proportions are concerned, almost to the point of disappearance, but remains a menace because organized labor evidently feels that its prestige is involved and it is disposed to exert itself to the utmost to compel some kind of a settlement. The threatened coal strike is a much more serious matter, as the coal industry is thoroughly unionized and coal is a necessity in all industry. If coal mining is suspended, the railroads will soon have to suspend operations and every activity of social life will come to a standstill. The public evidently is not looking for any such calamity. It is assuming that somehow the dispute will be adjusted so that coal production will go on.

An important increase in the price of coal of course would be far-reaching in its consequences, for it would affect all other costs and have bearing upon living expenditures at every point. The consumer would feel it in every purchase, and it would almost surely stimulate other wage demands, all which in turn would come back on the entire wage-earning class including the miners themselves.

Labor Representation in Management.

On account of the general interest in this subject we give space to the following letter and make reply as requested:

The National City Bank of New York,
New York City, N. Y.

Dear Sirs:

Your issue enclosed "Economic Conditions," etc., under date "New York, June, 1919," on page 14 states that in 1914 "the amount of capital in manufacturing within the United States amounted * * * * * for each person employed to * * * * * $2,848." This when discussing labor conditions.

Has it never occurred to you that the "production cost" of the person employed is *capital used in the business;* this to the same extent as is capital invested in the business plant; *and that the use of that capital is an absolute essential to the business?*

If this be conceded, is it not reasonably certain that employes have contributed to, used in, the business of manufacturing a larger amount of capital than have those whose moneys have provided the industrial plants? That is, is it not reasonably certain that the average "production cost" of the employe has been in excess of $2,848?

Those engaged in a common business have usually exercised control of it in the ratio that their capital was used. Such being the custom, what good reason can be assigned for excluding the owners of the *employes* "production cost" *capital* from a fair share; a share based upon their capital used in the business; of the direction of the business in which they are engaged, and to which their contribution of their capital-production cost is an absolute necessity.

And what good reason can be assigned for excluding the owner of the employes' capital, so contributed and so used, from *any* benefit that is accorded to the owner of *any* capital that is otherwise contributed and so used?

I would be very much pleased if your ideas in this connection shall be expressed in your next issue and a copy be mailed to me.

Yours truly,
GEORGE W. TOWLE,
24 California Street, San Francisco, Cal.

We do not think the consideration of Labor from the standpoint of production-cost adds any higher or stronger claims than are usually recognized. The value of an individual in a given occupation is not related to his production-cost, but to his ability and willingness to produce goods or services. Nobody ever hires a man on the basis of what his father has expended on him.

Capital in like manner is rewarded upon the basis of service rendered, as we see by the fact that some investments pay more than others and many are unprofitable.

Practical Cooperation.

Modern industry is essentially cooperative, in the sense that it is mutually helpful and dependent, based upon the division of labor.

The whole industrial organization works together on a gigantic scheme which has gradually and naturally developed. Each individual devotes himself to some one particular work and exchanges services for products with the others. The wage-system is cooperative, the wage-earner contributing his labor and accepting a fixed wage, while the employer contributes the necessary capital and assumes the responsibilities and risks of conducting the business. Most of the criticism of the wage-system is by people who have never had the responsibility of meeting a pay roll, and have but a faint idea of the task of conducting a business successfully.

Labor's interest in industry is very practical; it wants the largest possible return and a certain one. The entire business world, including employers and employes, is intensely practical; it has little use for theories except as they are supported by results, but it is always trying experiments and searching out the best ways of getting results. If the business world had found as the result of experience that the highest degree of productivity in industry was obtained by having all the employes participate in the management, the indus-

tries conducted upon that principle would have driven all the others out of business by this time.

"Cooperative industry," in the sense that all the workers share alike in the management and profits, has been tried, but as a rule has not been successful. The workers usually like it no better than employers, because it does not produce satisfactory results. And the primary reason why it does not produce satisfactory results, put in homely phrase, is that "too many cooks will spoil the broth." The same consistency, continuity and efficiency of management cannot be had from the councils of many as from the councils of a few. Even if all the members of a given company may be called equals in point of intellectual ability, a large company or committee in which all have an equal say is notoriously less efficient than a small group. It was not until one man was put in charge of the Allied armies in the great war that those forces became really effective. There must be a directing head vested with authority in order that any business may be a success. In competition with rivals thus managed cooperative undertakings in which everybody is a proprietor and the business is run by committees usually fail. This is a practical test from which there is no appeal.

Joint Stock Corporation is Cooperative.

Cooperation as an industrial policy develops naturally. With the progress of education, with the leveling up of the masses of the people, with the spread of experience and the development of intelligence, the cooperative capacity of the people will develop, and we may expect cooperative undertakings to be more successful. It takes a high average of intelligence and character to enable people to cooperate in industry upon absolutely equal terms. There was a very high average in the famous Brook farm experiment, which was a ludicrous failure by any test of business success. It is conceivable, however, that people will learn to cooperate in industry to the extent of putting authority into the hands of a few, selecting the most competent. That kind of cooperation exists now in the joint stock corporation, and it appears there under conditions that are necessary to its success.

The difference between the cooperation which is exhibited in the joint stock corporation, and that contemplated by our correspondent is that in the former every participant must have some permanent stake in the business. He must have an investment in it which is a guaranty that he is interested in its lasting success and that he will not sacrifice its future for an immediate gain. Would our correspondent claim that an employe who denied himself the pleasure of personal expenditures this year in order that he might contribute to the purchase of machinery that would add to the productiveness of the plant in the future was entitled to no more voice in the management of the business than the employe who declined to contribute anything to the fixed plant, or commit himself in any respect to the business in the future, and held himself free to quit on any pay day when he might think the prospects were better elsewhere?

Risks of Business.

The Bureau of Education of the United States Government is issuing a series of "lessons" upon economics, for use in the public schools, and "Community" Leaflet No. 22, for the instruction of high school pupils contains a brief statement of the risks of capital invested in business which may be quoted in this connection. It says:

> Two further sources of risk may be mentioned. The risk of capital invested in business are at their greatest, when a large amount must be put in fixed capital, such as machinery, railroads, and permanent buildings. In some business millions of dollars must be spent and years of time must elapse before a single bit of product is made. In our rapidly changing society it is quite possible that a large part of this investment and expenditure of time and effort may have been wasted. Wants may have changed; new processes may have been invented.
>
> Then, too, our society is so interdependent that a business man may have heavy losses because of happenings over which he had no control, and indeed concerning which he may not have known. For example, when the present great war began in Europe, the price of cotton declined, and many planters and merchants in the South failed in business; that is to say, they could not pay their bills. Their creditors (and this included banks from which they had borrowed and merchants from whom they had bought goods) were in some cases forced into bankruptcy also. These creditors had still other creditors, and there spread over the South, and even into the North, a condition where banks, farmers, and merchants were affected by the fall in the price of cotton.

Cannot Have It Both Ways.

It is a very wise saying that "you cannot eat your cake and have it too," or as they say in England, "you cannot have it both ways." The workman cannot at the same time exercise the authority of a proprietor and also be free of all responsibility and risk in the outcome of the business. Somebody makes a large investment to carry on a modern industry. That is a pledge to the workmen that he intends to carry on the business permanently and upon the common, prevailing conditions as affecting labor. He cannot well promise more, and he would be foolish to make the investment if he did not expect to do this. He may fail, and the workmen may be thrown out of employment, but in that event he has sunk his capital in the effort and there is every reason to believe that he has done his best to keep going. He furnishes the equipment, which represents labor done in the past, assumes the responsibility of paying fixed wages and takes the risks of loss against the chances of profit. If he wants to use more capital than his own, as is usually the case, he enters into the same kind of a bargain for that as

he does for labor—agreeing to pay a fixed return, which the lender accepts without asking for any voice in the management. Authority and responsibility go together. When any party to the undertaking insists upon a guaranteed return he necessarily concedes some compensatory condition to the guarantor, and naturally it is that the latter shall have, if not the full say, at least the chief say in the management of the business.

Labor's Voice in Management.

We do not say that Labor should not have representation in the management. We understand the position of Labor generally to be that it does not ask for representation in determining the general policies, but only upon the conditions which directly surround the employment. If the proposition is thus limited it is comparatively simple, but our correspondent apparently does not so understand it.

We would say that there can be no hard and fast rule about the representation of Labor in the management. It is not a question to be settled by theoretical arguments, but by the test of results. Any scheme under which business is unsuccessful will be worthless to Labor. Every such device is a failure unless production is at least as large as it was before that device was adopted, for if production falls off Labor will get less and it is too practical to sacrifice real benefits. The main thing for Labor is to get ahead as best it can—getting better homes, better education, more comforts, more experience, more knowledge, cooperating with the system which produces these day by day results, and being assured that gains of this kind lead to everything else. The organization of society changes constantly, but gradually, with the development of its individual members. Nothing can stop this natural evolution. It is a great merit of the existing system that it is a developing system, not stereotyped or fixed.

The Problem One For Free Experiment.

Thousands of managers are studying this problem of how to increase industrial efficiency by enlisting more interested cooperation on the part of their employes. A great many plans are being tried and developed, and this is the natural course of progress. Success is likely to be gained more rapidly this way than by the interference of any authority. Any plan imposed by the government or by any such body as the Industrial Commission, would represent the theory of a small group who originated it. Nothing of the kind that is imposed upon industry from the outside can be as adaptable or successful as the methods which are spontaneously developed in the practical operations of industry. The degree and method of cooperation must be adaptable to different industries and different conditions.

The whole problem is one to be worked out by experiment and demonstration. The results will not be the same in all cases. Where the employes are wisely represented and enter cordially into the purpose of making an industry more efficient and more prosperous the results will be beneficial to all parties. On the other hand, if the representatives of the employes use the information and advantages that are conceded to them solely as a means of strengthening their own position in disputes with their employers, and as a basis for demands which do not take all the contingencies of the business into consideration, the experiment in such instances will fail.

Emerson speaks in one of his essays of the development of what he calls "facility of association," as the practical test of civilization. He meant the ability of men to get along together, work together, and plan and strive for the common interest. It requires a certain degree of intelligence, judicial poise, fair-mindedness, receptiveness, toleration, generosity of spirit and mutual confidence. These traits develop as men come together and work together, as they read and reflect and debate, and as accumulations of capital in the form of improved machinery relieve them from exhausting physical labor.

The wage system is a compromise in cooperation advantageous in its simplicity, which enables people to work together in a fair degree of harmony who could not do so in more intimate relations.

Cooperation by Stock Ownership.

The most simple and natural development of cooperation or profit-sharing is through participation by the wage workers in the ownership of the industries in which they are employed. Obviously, if this policy was steadily pursued, it would soon accomplish much in modifying the antagonism between employers and employes. There are 2,000,000 railroad employes in this country, and their average pay last year was over $1,500. If they would make an average investment of $50 per year in the stock of the roads for ten years their proprietary interests would aggregate $1,000,000,000, and the total amount of railroad stocks outstanding is only about $8,000,000,000 par value, at this time selling on a basis of probably $5,000,000,000 or $6,000,000,000. A widespread distribution of railroad shares among employes and the general public would be far more desirable than the ownership of the roads by the government.

Belief in the principles of democracy does not require us to hold that intelligence, thrift, providence and public-spirit are qualities entitled to no weight in the government or direction of industry. If society is to go forward the machinery of organization must be such that these qualities will have some preference and weight in the administration of affairs.

Somebody must supply the fixed investment which every industry requires. Somebody must tie himself to the industry in this sense and have this permanent interest in its future, and, obviously, those who do so are entitled to a more influential voice in the management than those who do not, and it is also in the public interest that they shall have it. It is a just distinction, and the public is interested in the capable management of industry.

It will not do to say that the interest which an individual employe might hope to acquire in a large industry would be too small to furnish an incentive, for no new distribution of wealth or income by averages will make the average skilled workman better off than he is now.

The labor organizations accumulate large funds in their treasuries, and pay out astonish sums for strike purposes, as note the voting of $250,000 recently by the union organization of the garment trade for support of the steel strike. Evidently they might raise large sums for investment in industries, but perhaps wisely they avoid the risks of doing business on their own responsibility.

Moreover, they are frankly opposed to having their members acquire stock in the industries in which they are employed. They seek no development along proprietary lines or in community of interests with employers. Their policy is to organize the employes and oppose them as a solid body to the employing class. The effect is to emphasize and develop class feeling.

A noteworthy manifestation of this policy appeared last month when a group of union switchmen at Chicago refused to handle cars for the Wisconsin Steel Company, a subsidiary of the International Harvester Company, because said Company has a "works council" in operation. This council is a body composed of officials and representatives of the workmen, organized to consider all problems that may arise in the operation of the works.

English Labor Unions Decline Proprietorship.

A striking instance of the attitude of the British labor organization upon this subject of proprietorship has been afforded this year. The British Government having on its hands two great shipyards constructed during the war, recently offered to sell them to the Federation of Engineering and Shipbuilding Trades upon very favorable terms, which were substantially as set out below, the account being from the London Times:

It is understood that two drafts of proposals by the Government were before the conference, one addressed to the Federation of Engineering and Shipbuilding Trades and the other to the Trade Unions of the Shipbuilding and Engineering Industries. The Federation is mainly a consultative body, comprising 42 unions, some of which are but remotely connected with shipbuilding. The first proposal was headed "Draft proposals for taking over Chepstow (National) Shipyards," and the second "Draft proposals for sale of Chepstow and Beachley Shipyards." In each sale the price was left to be agreed upon, the purchase price to be secured by a second mortgage debenture at a rate of interest to be agreed, the purchase price to be paid in such amounts as and when the unions might elect, provided always that the unions should pay an annual installment of not less than an amount to be agreed. To the unions it was proposed that a company be formed to borrow the money requisite for working the business, such sums to be secured by first mortgage debentures. The Government proposed that the unions might borrow from the Government or outside sources upon first mortgage debentures security. In both drafts Beachley power house was excepted from the proposed agreement, subject to arrangements for the supply of light and power to the yards and housing requirements. To the unions it was proposed that the Government should have joint control for the first three years in the matter of appointing the management, after which joint control would cease.

In both sets of proposals it was laid down that hours, rates and conditions of labor should be the same as prevailing from time to time on the northeast coast, and the propositions to the Federation contained the further condition that a yearly portion of the profits be set aside for a superannuation fund for all employes. The unions were given the right to sell land or plant on the Beachley site not required for the business, the money therefrom to go to the part discharge of the second mortgage debentures. Both sets of proposals gave the assurance that the yards would be handed over fit to be worked on a commercial basis, and the draft addressed to the Federation contained an added clause that the negotiations were to be based on the assumption that the Government would place orders for work at the yards upon terms not less favorable to the unions than the prevailing market terms and in such numbers as would keep the yards fully employed for three years at least.

These terms seem to offer a fair opportunity for the unions to come into the ownership of great works with practically a guaranty of plenty of work at fair compensation for three years. It was a chance to secure not only steady wages, but the profits of management, and to demonstrate that high compensation to capitalistic managers was unnecessary. The Federation, however, declined the tender. Its officials did not wish to assume the responsibility of managing the shipyards. They don't want the shipyards on a competitive basis, where a fair test of efficiency could be had. They want the shipyards operated by the Government, backed up by the public Treasury and supported by the general taxing power. The Federation reply was as follows:

"This Federation gave careful consideration to the Government proposals that we control and subsequently purchase the shipyards at Chepstow and Beachley. Opportunity was also taken to consult the Parliamentary Committee of the Trades Union Congress, as a body representing the whole trade union movement of the country. They did not favor the proposal of the Government in reference to these yards. The policy of this Federation is in favor of the development of national resources under public ownership, as submitted in the reports of the Industrial Conference called together by the Government in connection with which the following sentence is quoted from the report: 'The sale

of national ships, shipyards and factories is strongly resented by labor, especially as this has taken place at a moment when ships might have been made of the greatest use in national needs, both in relieving the necessities of the world and preventing the creation of monopolies.' These considerations were strongly supported by the delegates, and the conference decided that they could not accept the offer made, it being against the basic principle of trade unionism. The shipyards are now the property of the nation, and the conference demands that they remain national property and be carried on in the national interest."

The Service of Capital.

We fear that our correspondent above missed the point of the statement relative to the increasing use of capital in industry, which called forth his letter. The census report shows that in 1899 the amount of capital employed in manufacturing was $1,770 to each person employed, while fifteen years later, in 1914, the amount of capital so employed was $2,880 to each person employed. What was the effect of this increased investment of capital? It put more effective equipment at the service of labor, increasing the output, besides having the effect in many cases of reducing the amount of hard manual toil. Moreover, the money-wages of wage-earners increased. The census table shows that in the five years from 1899 to 1904, the number of wage-earners in manufacturing establishments increased 16 per cent. and the total wage-payments increased 30 per cent.; in the five years, 1904-1909, number of wage-earners increased 21 per cent. and wage-payments increased 31 per cent.; in the period of 1909-1914, number of wage-earners increased 6.4 per cent, and total wage-payments increased 19 per cent. These figures and all other industrial reports are so uniform and consistent that they demonstrate the workings of economic law.

We give the table from the official census report again, as it cannot be published too often, showing as it conclusively does the increase of production and the steady distribution of benefits to the wage-earning class from the investment of capital in industry. We would repeat that the figures for 1914 over 1909 are doubtless affected by the demoralization of industry in five months of 1914, resulting from the outbreak of the war. The first effect of the war was to cause much unemployment.

	Percentage of Increase		
	1904 over 1899	1909 over 1904	1914 over 1909
Capital employed	41.2	45.4	23.7
Primary horse-power	33.6	38.5	20.7
Wage-earners, average number.	16.0	21.0	6.4
Total wage-payments	30.0	31.0	19.0
Value of products..............	29.7	39.7	17.3
Increase added by manufacture.	30.3	35.7	15.8

The Economic Law.

These figures furnish proof of what the leading economists have always asserted, viz: that the profits of capital which are left in industry, or returned to industry for its development, inure to the benefit of wage-earners and consumers, increasing the demand for labor and the distribution of products to the latter. Nothing inures to the capitalist personally except the earnings which he withdraws from business and spends upon himself. The unusual profits, the profits which excite antagonism, and are denounced as "profiteering" as a rule go back into industry for its development. It is true that in instances they may be unfairly obtained, but when they are used in industrial development the public has offsetting benefits. Nothing justifies injustice, but the natural economic law has its own way of correcting injustice. It doesn't always take care of individuals, but it takes care of society. The surplus profits of capital and excess earnings of individuals when invested in production for the public market become public capital, devoted to the common welfare as truly as though paid into the public Treasury.

The sum of it all is that Labor, or to put it differently, the mass of consumers, is the residuary legatee of all surplus wealth above what the rich actually consume. The consumption of the rich is an insignificant share of the total production.

Professor King's Book.

The census figures support the conclusions of Professor King, which we gave last month, to the effect that labor over the average of recent years has had directly not less than 80 per cent of the total proceeds of industry, the remaining 20 per cent representing the total of rent, interest and profits. The recipients of rent, interest and profits, however, as we have seen are accustomed to reinvest a large portion of their incomes for the enlargement of production, and the proceeds of these new investments are distributed in like proportions, viz.: 80 per cent to labor and 20 per cent to capital; and each new addition to the capital fund produces similar results.

We have received a letter from Professor King in which he says:

> I have read with great interest your suggestion to the President's Industrial Conference. Thank you for your kindly reference to my book. In turn, I would say that your article appears to me not only sound but most timely and that many more similar sane articles are needed at the present time. The war served to unsettle everything and to set everyone to looking for a road away from work and toward easy riches. They need to be shown how impassable that road really is.

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THE NATIONAL CITY BANK OF NEW YORK

1919

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, DECEMBER, 1919.

General Business Conditions.

ALL the reports and indices of trade show that business is at the very top-notch of activity, except as interrupted by the serious strikes which have prevailed, and in spite of these the volume of transactions in October and November was much greater than ever before. The report compiled by the Federal Reserve Board of checks drawn by individuals upon the banks of 150 leading clearing houses showed a total for the week ended November 19 of $11,048,540,000, which compares with $8,086,786,000 in the corresponding week of last year. Railroad traffic is slightly heavier than a year ago.

The pressure for goods is unabated, and since the demand exceeds the supply, naturally the tendency of prices is upwards. It is evident that in many lines, and perhaps generally, producers and dealers are endeavoring in good faith to hold down prices, and that without such efforts there would be runaway markets. In iron and steel products the strike has caused a dearth of supplies and the United States Steel Corporation is exerting all its influence to hold prices down to the level fixed last March, when, it will be remembered the Director-General of railroads broke up an arrangement which the Secretary of Commerce had promoted, because he thought these prices too high.

There can be no controversy over prices while merchants are chiefly interested in getting the goods. The plain situation is that production is unequal to the market demand. In the face of all the wage controversies that are going on the market situation seems to show that the purchasing power of the masses of the people is greater than ever before. It exceeds the capacity of the industries as they are now operating. If production could be speeded up these high wages would buy a good many more things and the wages themselves would be more secure. It would simplify matters wonderfully if the labor organizations would turn their attention from efforts to increase wages to efforts to making all kinds of goods more plentiful and cheap. The opportunities for real gains to themselves are far greater in the latter direction than in the other.

The Remedy for Profiteering.

The situation has shown the futility of most of the outcry against profiteering. The dealer who takes advantage of a scarcity or of the ignorance of his customers to exact an unusual profit is not an admirable character in the eyes of anybody, but in times of real scarcity prices are bound to go up, for there is an economic necessity in it, and somebody is sure to make money out of the rise. The only remedy for high prices and abnormal profits is increased production—greater supplies on the market. The evil will work its own cure if let alone, and all efforts to mitigate its effects are likely to interfere with the natural restoration of normal conditions. We do not say that price regulation is never advisable or justified. Circumstances may be such that immediate relief is of the first importance, and the natural laws require time to do their work, but in the long run they do their work effectively.

Notwithstanding the successful demands of cotton mill employes for more pay and shorter hours the cotton mill companies probably are making more money than ever before, because the supply of cotton goods is short and buyers are competing for the product. It is not a case of extortion or arbitrary price-fixing. The public market is making the price; it is beyond any producer's control. It is idle and unintelligent to condemn a farmer, or an individual producer in any line for taking the going price for his product in an open free market. If he sold his goods below the market he would not affect the market, and if he sold to a dealer his concessions probably would not reach a single consumer. The trouble is that there are not goods enough to go around, the remedy is more goods, and unusual profits are the most certain influence for the production of more goods.

Looking back now over the scene three months ago, when Government officials were hurrying to and fro and giving out interviews about the "hoards" they were discovering and the profiteers they were summoning to justice, the lesson ought to be worth something. Nothing has come of it, not because the officials did not do their best but because the situation was not as they thought.

The real trouble with the markets is that there are not enough goods to supply everybody who wants them.

The Labor Situation.

The labor troubles are a very serious influence affecting production and prices. The strike in the steel industry is practically over, but besides the direct losses resulting to the steel companies and employes it has cut down the supply of steel to the injury of many industries. Now that the steel strikers are ready to go to work many are unable to do so because the strike of the miners has cut off the supply of coal. Meanwhile a strike of the dock workers for a month has kept hundreds of ships tied up, delayed the transportation of goods and contributed to the cost of living in that manner. The printers of New York City, after interrupting the publication of hundreds of periodicals for nearly two months, and losing large sums in wages, have concluded to go back to work at the terms offered them when they quit. The textile workers of New England have demanded another increase of 25 per cent. upon wages, and threaten to go on a strike the first of December, which will cut down the already short production of cloth. At this writing an increase of 14 per cent. has been offered the miners and they are holding out for more. Meanwhile a very serious reduction of stocks is taking place. A settlement with another group of railroad employes, the trackmen, has been effected, which increases their pay, and the trainmen are yet to be satisfied.

Each of these demands may have justification, argued by itself and in view of other demands, but they are all contributing to the general state of disorder in industry which is reducing the common supply of necessaries and comforts. The most aggressive of these groups claim to be demanding no more than is necessary to enable them to hold their own, and in any event it is evident that the waste and inefficiency is enormous.

Wages Cannot Make Good Scant Production.

The production of sugar from the last world's crop was about 16,300,000 tons against 18,800,000 tons from the last crop before the war. The world's production of all the bread grains is far below what it was before the war. The available supply of hides and leather on the markets and the production of shoes therefrom is far below that of the pre-war period. The total production of cloth from both wool and cotton is much below the pre-war period. The production of coal and other necessaries has fallen off in like manner. Under these conditions it is impossible by mere wage advances to provide everybody with as much of everything as he had before. They only give each group the means to bid against the other groups, with the result that prices rise and absorb the advances. The efforts for high wages simply nullify each other, and it is useless for labor leaders to declare that they will get just as much of sugar, clothing, coal and other things for their followers as though there was full production.

Labor is ambitious to come into a larger share in the management of society than it feels that it has had in the past, and it can easily do so if it will put forward the type of leadership which is needed. Society wants intelligent, enlightened leadership, which will be governed by the purpose to improve conditions for all, but the leadership which seizes upon a time like this to curtail production and promote disorder throughout industry is not very likely to be called to larger responsibilities.

The Miner's Strike.

The miners' strike, timed deliberately to take effect at the beginning of winter, is the most serious menace the country has faced. The miners are entitled to have an impartial investigation made into the conditions surrounding the industry and to be assured of fair treatment. Apparently there is a great amount of lost time in the mines, resulting in low monthly earnings in many instances although the rates of pay would be ample upon a full time basis. Shortage of cars is responsible for much of this during the present year, and this ought to be remedied without permanently increasing the price of coal. It is one of the results of the illiberal public policy by which the earnings of the railroads have been restricted for years, a striking illustration of saving in small things and losing in large. The losses of the public during the last four years from inadequate railroad facilities amount to far more than liberal treatment of the roads would have cost, and the cost of this coal strike caps the climax.

Miner's Deserts and Obligations.

The public wants the miners to be well paid; it doesn't want cheap coal at the cost of illy-housed, illy-fed, poorly clothed miners and families; but on the other hand it should not have to pay for idle time, or wages out of proportion to wages in other industries, for the wage-earners in other industries have to pay the wages of the miners to a great extent. Some plan ought to be devised for spreading coal production more uniformly over the year, but some plan should also be devised to prevent a relatively small group of men from shutting up the coal mines of the country on the verge of winter until their demands are satisfied. It is difficult to understand how any body of men could assume the power to inflict such injury upon the community. If the operators should refuse to accept a determination by the public authorities summary measures would be taken against them, and properly.

Recent advices to this Bank are to the effect that 3,500 industries in Paris and vicinity are shut down for want of coal, and that the hopes of the country are centered upon America!

Operator's Profits.

The talk about the profits of coal operators in 1917 is largely irrelevant. It was not until October of that year that Federal control of prices went into effect. The Treasury authorities in charge of income reports say that profits were lower in 1918 than in 1917 and they are undoubtedly lower in 1919 than in 1918, as both consumption and production have declined. There is no other industry perhaps in which the profits of producers vary as they do in coal-production, because of the varying physical conditions in competing mines. As a general rule in the past bituminous coal-mining has been known to bankers as a hazardous business, except for the producers most favorably situated, but in a year when prices must be high enough to make profits for the most uneconomical properties it is evident that they would be large for the low-cost producers. In normal times competition may be trusted to eliminate excess profits.

A British Labor Leader.

We have quoted heretofore from several of the prominent labor leaders of Great Britain who have shown a clear grasp of the present economic situation. Not all the British labor leaders are of this type, unfortunately, but there have been enough of them to keep the labor movement from going over the precipice into Bolshevism. Mr. W. A. Appleton is an English labor leader whose standing with organized labor cannot be questioned, since he was elected only a few months ago, at the Amsterdam conference, as President of the Federation of Trade Unions of the World, and holds that place now. He gave out a statement recently in which he spoke very plainly about the radical efforts to bedevil the government and involve the whole industrial situation in confusion. He said in part:

> The tragedy which threatens to overwhelm Britain proceeds in regular fashion. Gradually, but definitely, is unfolded the plot to bring misery upon the people in the expectation that misery may advance revolution and exalt the demagogues who would become autocrats.
>
> * * *
>
> It is no use analyzing intentions. A nation faced with strangulation can only deal with effects and the effects of the propaganda which these revolutionaries have fathered are culminating in disaster.
>
> The friends of the men really responsible for the troubles in the mines and on the railways and in the docks may argue that all of them are altruists, but to the average man it seems very much as if their altruism was for abroad and not for home. Whatever their intentions, the fact remains that they have brought English industry into perilous circumstances and British workmen to the certainty of grave suffering and possibly starvation.
>
> Faced with a restriction of output of coal and an inefficient and costly system of railways, faced daily with sporadic strikes, what will the Government do? What will the nation do? The answer to the first question is easier to find than that of the second. The Government will do what it has been doing since Mr. Asquith gave his fatuous advice to follow prices with wages. It will temporize in the Micawbean hope of something turning up.
>
> Salvation lies now, as always, with the nation. Upon the manner in which it faces the situation everything depends. Each individual must accept his own share of responsibility and perform his own task.
>
> The flooding of mines and the cessation of work on railways destroys wealth and rots food. It is useless to talk of taxing wealth which chicanery and folly have destroyed, or of enjoying food which unreasoning railway men have left to perish. Every man and woman and child in Britain will have to pay for the past and current week's follies, and the poorest will pay most, because they will pay in actual suffering, while the well paid will only incur the disadvantages of straitened circumstances.

The Banking Situation.

With the beginning of November the Federal reserve authorities inaugurated the long-predicted, oft-warned-of policy of putting a check upon the further expansion of loans in the reserve banks. They have not even yet avowed the policy in peremptory terms, but of their purpose there is little reason to doubt, because the situation plainly requires that this policy shall be adopted. The advance in rates has been very slight as yet, and it is difficult to see how any one can complain that the Board has not acted with great forbearance and caution. Over and over again it has been pointed out that the demand for credit would be necesarily heavy this fall, and that the resources of the system would need to be carefully conserved for the most essential uses. There have been criticisms because definite action was not taken earlier, but it was known that the Board was disinclined to move until a full year had elapsed from the closing of subscriptions to the Fourth Liberty Loan.

The Situation International.

That the situation is international is shown by the action of Bank of England in raising its discount rate from 5 to 6 per cent., which it did, following the advance of our Federal reserve rates. Although the credit situation in England is naturally more extended than here, the London stock market took the advance with less disturbance than was occasioned here, which was noted by the London papers with self-satisfaction. The London Times said on its financial page:

> As a matter of fact, the really striking feature of the immediate effects of the higher money rates now established here, which ought to be quite sufficiently high for the objects aimed at, has been the fundamental stability of the working of the financial mechanism in London and the essential soundness and sobriety of

British monetary methods. In view of what was happening last week in New York, it is almost comic to find phrases used here about "hysterical nervousness" and "wide fluctuations in prices," and so forth, when all that has really happened in London has been a respectable adjustment of values. It is high time that anybody in the City who has been afflicted with the "blank misgivings of a creature moving about in worlds not realized" should just rouse himself to appreciate the plain duties of a business-like people, when confronted with the task of dealing seriously with such separate problems as the deflation of credit and currency and the increase of economic production, both of which, simultaneously, should be engaging our national energy.

In this country we have been accustomed in the past to recurring financial crises, and tight money always sets in circulation a crop of direful predictions, but it is well to bear in mind that the Federal reserve system has put an end to one kind of a panic, to-wit: the kind resulting from fear that currency will not be available in liquidation of bank deposits or credit to carry on necessary business. The Federal reserve system cannot go on indefinitely increasing the volume of credit, but the payment of bank deposits in currency does not increase the volume of credit; it is merely a substitution of one form of credit for another. The Federal reserve system does not have the power to sustain commodity or stock values after confidence in their permanence has departed, but there is no question about its ability to finance the current trade and industry of the country without interruption.

Figures of Loan Expansion.

It was plain enough on the first of November, and for a month previous that the reserve system was getting as near to the limit of its expansive capacity as it should go. The bill holdings of the reserve banks had increased from $2.123,000,000 on November 1, 1918, to $2,522,000,000 on October 31, 1919, although with the war over and the Government's demands upon the money market greatly reduced, a decline in these items might have been expected. The total of loans in the national banks on June 30, 1914, was $6.430.000,000 and on June 30, 1919, $10,852,000,000 and in addition to the latter account must be taken of all the re-discounts passed up by these banks to the Federal reserve banks.

The Federal Reserve Bank of New York has been for some weeks hovering on the edge of a deficit in its reserves. On October 17 its reserve against net combined liabilities was 37½ per cent. and after alloting 35 per cent. to deposits and the rest to note circulation, as is the practice, the reserve against notes was 39.9 per cent., or slightly under the required amount. Indeed, for several weeks the New York bank was saved from a deficit only by selling some of its paper to other reserve banks.

The loans and investments of member banks reporting to the Federal Reserve Board on November 14, exclusive of holdings and loans upon Government securities, aggregated $12,350,252,000, which compares with $11,624,559 on September 19, 1919, and $10,594,803 on November 15, 1918.

All of these figures show that a great expansion of bank credit has been under way, attributable to scarcity of commodities, rising industrial costs and renewed activity in investments and speculation.

The Money Market.

The call money market in the early part of November ranged up to 25 per cent., but after a sharp break in the stock market had curtailed the demand in that quarter, the borrowing demand fell off and was comparatively quiet during the remainder of the month, with rates around 6 and 7 per cent. Time money is decidedly firmer, ranging from 5½ to 6 per cent., with some good paper offered at even higher rates. Indeed, conditions in this market warrant 6 per cent. as the bottom rate. Bank acceptances are offered on a basis to yield 5¾ to 6 per cent. There is practically no market for commercial paper in this city at present, but country bankers are buying on a 5¾ basis.

The fundamental fact is that there has been no relief in commodity markets since hostilities ceased a year ago. Production has not been resumed upon a scale adequate to meet the world's needs, and with the demands of labor for higher pay and shorter hours the pressure for more credit has been insistent everywhere. One remedy is to make credit more costly and this must be generally applied, but there is another, which is to exercise greater discrimination in lending. This must be done, of course, with care, not to force liquidation in a drastic manner, but to hold the tendency to expansion in check. The situation probably is at or past the crest of the present demand, and after the opening of the new year may be expected to show some relaxation, although a state of ease is not to be expected until prices turn lower.

Foreign Trade and Exchange.

The foreign exchanges have suffered further serious depreciation during the past month, the sterling rate finally dipping under $4. on one day. The table of the principal exchanges follows:

	Unit Value	Ex. rate Oct. 27	Ex. rate Nov. 28	Discount from mint par
Canada	1.00	.9637	.9525	4.75%
Germany	.2382	.0350	.0230	90.3%
Italy	.1930	.0962	.0825	57.3%
Belgium	.1930	.1163	.1075	44.3%
France	.1930	.1156	.1026	46.8%
England	4.8665	4.1800	4.0300	17.2%
Switzerland	.1930	.1770	.1818	5.8%
Holland	.4020	.3800	.3775	6.1%
Denmark	.2680	.2150	.2030	24.3%

Norway	.2680	.2290	.2180	18.7%
Sweden	.2080	.2410	.2250	16.0%
Spain	.1930	.1925	.1965	1.8%*
Argentine	.9648	.9650	.9825	1.8%*
Japan	.4885	.5075	.5075	3.9%*

* Premium.

Reports are more numerous of export business lost by reason of the high cost of American exchange, but despite them all the figures for October commerce show higher exports and lower imports than in the previous month. The former aggregated $632,000,000, a gain of $35,000,000, and the latter aggregated $416,000,000 a falling off of $20,000,000. The total exports for ten months were $6,501,000,000 and total imports $3,113,000,000.

The Matter of Credits.

The presence in this country of many men of large affairs, bankers and manufacturers, from England and the continent of Europe, who came over to attend the international conferences at Atlantic City and New Orleans last month, and have been travelling over the country, has caused increased discussion of the need that credits be provided for Europe on a large scale and undoubtedly enlarged the public interest in the subject. Steps have been taken by the appointment of committees representing the American Bankers' Association and the United States Chamber of Commerce which may result in organized effort. All recent information from Europe supports the view that there is the utmost need for this country to interest itself in relieving the situation. The further decline in the exchanges as shown by the above table increases the cost of American goods to a degree that must be prohibitory unless credits are arranged. The present volume of trade can be accounted for only upon the theory that individual credits have been granted upon a larger scale than is generally known. There is much evidence to confirm this opinion.

The Department of State, Washington, has given out that a delegation of German business men, representing the principal industries of the country, is coming to this country at an early day to present a statement of the needs of that country for raw materials and endeavor to make arrangements for large purchases. Owing to the fact that a state of peace has not been formally agreed upon between the countries the visit has been delayed but the State Department has adopted regulations which will meet the situation.

European Food Situation.

Recent reports about the food situation in Europe have been very alarming, but the outlook does not seem to have changed much since Mr. Hoover gave out his calculation in August. It is true that without large importations from outside of Europe a terrible condition of things will exist this winter, but this has been known all the time. The growing alarm upon the subject as winter approaches is because the means of obtaining such importations are not yet provided. Even in time of peace it was necessary for Europe west of Russia to import food for about 70,000,000 people, but it was paid for in the ordinary course of trade by the exportation of goods. During the present crop year Mr. Hoover has estimated that it would have to import food for 100,000,000 people and it cannot pay for it with goods. Unless such importations are made the people will die, and Mr. Hoover has said that the loss of life between now and the next harvest may be greater than during the four years of war.

In normal years before the war Europe west of Russia imported about 14,000,000 tons of grain, of which 5,000,000 came from Russia. This year the Hoover Commission estimates that the same territory will have to import 21,000,000 tons of grain, and that 3,000,000 tons will be obtainable from the Ukraine and Roumania. This will leave 18,000,000 tons to be obtained from the other exporting countries which are the United States, Canada, Argentina, Australia and possibly India, or twice as much as in pre-war years. The Commission calculates that this amount of grain is available and can be spared by the exporting countries; the problem is wholly that of making payment. The President of Argentina has laid before the Congress of that country a message recommending a loan for $200,000,000 to the governments of Great Britain, France and Italy, the proceeds to be expended in purchases of Argentine products. The British Prime Minister, Mr. Lloyd-George, stated in Parliament last week that the British government had laid before the United States government representations looking to the granting of credits for Austria, to cover purchases which would have to be made in this country.

This is a situation which calls for action. It is inconceivable that the United States, with its wealth of resources should fail to do its duty in this the greatest crisis of human history. This is not an appeal to charity, but for credit until the normal industrial life of these countries is re-established.

A Conference in London.

A "Fight the Famine Council" has been organized in London by public-spirited people who believe that the world does not sufficiently appreciate the danger of great loss of life and social disorder in Central Europe. An international conference was held early in November at which several delegates from Central Europe were present. The "London Times" reports statements by Professor Brentano, a German economist of international repute, and Sir George Paish, the well-known English economist and journalist, as follows:

Professor Brentano urged that if Germany was to discharge her obligations to the Entente her people

must be able to work, and industry must be organized and encouraged. If budgets were to be prepared and the ordinary life of the country resumed, she must know as soon as possible the full extent of her liability. For instance, a capital levy was proposed for the purpose of restoring the credit system, but would the country be permitted by the Reparation Commission to use the fund so created for that purpose? The credit of Europe could not be reestablished until these uncertainties were swept away. Germany herself could not produce the food and raw materials required to enable her population to work. The war had proved that Germany could not be self-supporting. The land was of moderate fertility and poor in raw materials, except coal and potash. The peace deprived Germany of two purely agricultural provinces, West Prussia and Posen. If even before the war she was compel'ed every year to import provisions to the amount of three milliard marks ($750,000,000), and to pay by means of coal and manufactured goods which the possession of her coalfields enabled her to produce, she must now import cereals and other goods for a far larger number of millions. One main reason for the decrease in production was that physically and mentally her people were worn out by the war. If any increased output were to be achieved, the real wages must be increased, and a change in the whole system of work would be necessary. Two hundred and fifty thousand men must be attracted to the Ruhr district—houses must be built, and employers could only give the necessary high wages if some reimbursement for the capital was expected.

Sir George Paish, who has just returned from an investigation of conditions in Germany, said that a vast catastrophe faced Europe. For its own vital interests England must prevent a general collapse. If it happened in Central Europe we should be confronted by a Bolshevist upheaval which would not be confined to the enemy States. The crux of the problem was credit. We must set aside prejudice, and with knowledge and common sense co-operate to reestablish the foundation of European credit.

The Gold Standard.

In all of the discussion that has been going on over advancing wages and rising prices very little has been said about the relation of wages and prices to the gold standard. There has been indeed in some quarters a dim recognition of the futility of having wages and prices chase each other around the circle and a realization that the process must stop somewhere, but only now and then it has been suggested that unless the gold standard is to be abandoned all values must be kept in touch with gold. The unit of value in the United States is the gold dollar, containing 23.22 grains of fine gold. That is the hitching post to which all prices are tied, and although we have paid out considerable cable in the form of bank credit, the line has an end, and when it is reached we can go no farther, unless we conclude to cut it.

This is the fundamental fact in the whole situation, that the word "dollar" means the value of 23.22 grains of gold. All other forms of money and all agreements to pay money are tokens or promises which refer to the gold dollar, and the maintenance of the standard requires that all such tokens and promises shall be readily realizable in gold. In order to assure such convertibility, and that the word "dollar" always shall have a definite meaning, the law provides that the banking institutions of the country shall keep certain cash reserves, fixing a minimum percentage to outstanding liabilities. The Federal reserve banks must keep a cash reserve of 35 per cent. against their deposit liabilities and of 40 per cent. in gold against their outstanding notes. The national banks and other banks which are in the Federal reserve system must carry certain reserves in the form of deposits at the Federal reserve banks, and other state institutions must keep reserves as required by state laws.

Credit Expansion Since 1915.

In banking practice these reserve requirements mean that the banks must not allow their liabilities to expand beyond the required percentage of reserves. Liabilities may be increased very rapidly in times of business activity and confidence by expanding loans, as we have seen in the last four years. This great amount of expansion was made possible, in part, by the heavy importations of gold during the first two and one-half years of the war, and largely by the establishment of the Federal reserve system. The latter has effected a large economy in the utilization of gold. The member banks are no longer required to carry any reserve in their own vaults, and use Federal reserve notes mainly for current cash transactions; the reserve credits which they must carry at the Federal reserve banks are less than the reserves formerly required, and the reserve banks have been able to largely substitute their own notes for gold certificates in circulation, thus enabling them to gather the certificates into their reserves. As a result of the unusual additions to the country's stock of gold, and the workings of the reserve system, the gold holdings of the Federal reserve banks increased from $315,977,000 on November 19, 1915, when the system was one year old, to $2,201,804,000, on June 6, 1919, when they touched the highest point reached to this time. On November 21, 1919, they stood at $2,119,315,000.

It has been under these exceptional conditions that the unparallelled expansion of bank credit has occurred, and inasmuch as there was no corresponding increase in the productive capacity of the country, the efforts to use all of this new purchasing power were chiefly expended in driving up wages and prices. When all the productive forces of a country are already fully employed you cannot get any more out of them by increasing the supply of money or bank credit. You have reached the point then where no employer can increase his output except by hiring labor away from other employers, but with an unlimited demand for goods, and the Fed-

eral reserve system to supply credit, the competitive demand for labor and materials went wild. That, in brief, is the story of credit expansion to this time. In a furious use of bank credit we have diluted the purchasing power of our money about one-half.

It is true that owing to the extraordinary increase in our gold reserves our bank credit remains at par with gold, but we have nearly exhausted the expansive capacity of our system.

Gold Reserves no Longer Increasing.

The volume of bank loans cannot go on increasing unless bank reserves are increasing, and since last June bank reserves have been diminishing, notwithstanding the fact that the reserve system has received a round $172,000,000 in gold from the German government for food shipments. We have obtained about all the gold we can hope to get from existing stocks. Nothing but Germany's desperate situation induced her to part with the shipments she has made, and none of the countries will want to reduce their present holdings. The production of gold is declining, owing to the fact that the value of commodities has risen above the mint value of gold. Although our currency is convertible into gold, and commodities are priced in currency, the fact is that gold and commodities are no longer on the same level. It takes a great deal more gold to buy any commodity or any service than it did in 1914. A man can earn more money at anything else than in producing gold. In competition with the wages paid for mining coal, copper and lead and in the other industries, it has become unprofitable to hire men to mine gold and convert it into money at 23.22 grains to the dollar. The value of the dollar has been cheapened by the free use of bank credit as a circulating medium, until it no longer pays to produce the metal.

Gold Production Declining and Consumption Increasing.

In the year 1915 the production of gold in the United States, according to the mint reports, was about $101,000,000, in 1918 it was down to $68,000,000, and this year it will be considerably less, probably between $55,000,000 and $60,000,000. Meanwhile, under the mania for free spending, the consumption of gold in jewelry and other manufactures is increasing. In the first ten months of the year 1913, the sales of jewelers' bars by the United States Assay office in New York aggregated $31,523,964 and for the first ten months of 1919 they aggregated $48,568,698. Including sales at other offices of the mint service and the melting of coin, the consumption of gold in the arts in this country this year will exceed the country's production, and this is one of the chief gold-producing countries of the world.

Expansion Cannot Continue Under the Gold Standard.

There are people who say that loan expansion must go on, because the present level of prices requires more money or credit to handle the business of the country, but the present level of wages and prices is automatically choking off the supply of gold and preventing the enlargement of gold reserves. The "endless cycle" of wages and prices has come to an end, if the existing standard, 23.22 grains of gold to the dollar, is to measure values. There will be no revival of gold-mining unless mining costs decline, no extension of operations, no exploration or prospecting. Existing mines which are rich enough to yield a profit probably will be operated, but production will continue to diminish.

The same influences which are potent here are felt in all gold producing districts. In 1915 the gold production of the world amounted to $470,000,000 and in 1918 to $380,000,000. In some countries, however, mining is done largely with native labor for which there is no strong competitive demand, and costs have not risen so much as in the United States. Moreover, in some important producing districts the producers are now able to sell their product at a premium over the coinage rate, as a result of prevailing premiums on exchange. The British government has relieved the mining companies of South Africa from the obligation imposed upon them during the war of consigning their gold to the Bank of England, and allows them to dispose of it as they please. They are selling it in the open market in London at a premium of 15 to 20 per cent. above the coinage rate, to purchasers who have payments to make in the United States and other countries with whom exchange is at a premium over the pound sterling. This action was taken for the purpose of helping to maintain the industry.

We will get some additions to our gold stock through these shipments while the exchanges are in our favor, but it will be very unwise policy to use them as the basis for further credit expansion. Sooner or later the exchanges will turn against us and gold will have to go out. If, when that time comes, the foundation must be taken out from under a fabric of credits there will be a disturbance of prices and of business far more serious than will result from holding expansion in check. It must be kept in mind that this country now has far more than its normal share of the world's stock of gold and sooner or later economic conditions will bring about a redistribution.

Inflation Instead of Economy.

This inflated situation in which commodity costs and prices have become dissociated from the coinage value of gold, is the result of economic ignorance. Everybody knew that in-

flation was going on during the war but nobody knew how to stop it. In order to place the enormous government loans it seemed to be necessary to urge people to borrow for the purpose of buying. There was much admonition that they should economize and pay up, but the importance of this was not generally appreciated. In the minds of most people the emphasis was upon supplying credit or purchasing power instead of upon economy in the use of productive capacity, which was more important. The full state of employment and the enormous sums disbursed by the government put money into circulation in streams never seen before, and the wide distribution of these disbursements created a demand in the markets for goods for private consumption which directly interfered with the government's purchases. People went cheerfully to the banks and borrowed credit for the purchase of bonds, and then went out and competed with the government for the very things that it wanted, forcing up prices until the new supplies of money and credit were absorbed in handling a volume of production which had increased in no such proportion.

Increase of Bank Deposits.

This expansion of loans has brought about an increase of bank deposits which is often referred to as an evidence of increased prosperity and wealth, but an examination of the process by which deposits have been swollen does not sustain this view. If a customer borrows $10,000 of a bank and takes credit for it in his account the deposits of that bank go up $10,000, and when he checks out the credit it is not extinguished, for his checks are deposited in other banks and swell their deposits. That amount of bank credit has been put into circulation, and it will remain in general circulation with the purchasing power of money, and the same effect upon prices, until somebody checks against his deposit account to extinguish it.

The Federal Reserve Bulletin for October contains a calculation of the amount of war obligations of the government held by all banks on June 30, 1919, including Liberty bonds, Victory notes, and Treasury certificates owned outright and held as collateral for loans. The total is $6,500,000,000. This amount of bank credit has been manufactured and put in circulation as purchasing power. The loans represent bonds purchased and not yet paid for, or loans made for other purposes and secured by the pledge of government paper. These obligations ought to be paid off and the credit which they have created retired.

There is no adequate appreciation of the fact that any amount of new credit that may be supplied will be absorbed by rising prices in times like these. The record of the last four years affords abundant evidence of this. The theory of the gold standard, and of any standard of value, is that the price level will be automatically adjusted to the standard, and that industry and business can go on at one price level as well as at another, once the adjustment is made. If we had a silver standard or a multiple commodity standard it would be just as necessary to restrict the use of credit, in order to hold the price level in some relation to that standard. The idea that we can go on manufacturing bank credit because rising prices make a demand for more, without regard to the relation of prices to the standard of value is, of course, wholly unsound.

Responsibility of Bankers.

The bankers of the country have a responsibility in this situation, as the public looks largely to them for information and guidance. Their deposits have been greatly increased by the inflation of credit which has taken place. This increase, as shown above, does not represent real wealth. It is to a great extent a result of the increased loans and higher price level. The law has reduced the amount of reserves which they are required to carry, but the law contemplates that the credits which they have at the Federal reserve banks shall be real and liquid reserves. The law does not contemplate that after reducing reserve percentages and concentrating all reserves in the reserve banks, the latter shall be loaned up close to the limit permanently. The law contemplates that their resources shall be kept for reserve purposes, and for temporary, seasonal and emergency uses. The present loaned-up condition of the reserve banks has resulted from one of the greatest conceivable emergencies—a great war. Over-borrowing was tolerated and even encouraged during the war, but good banking practice and the best interests of the country require that what was done during the war shall not be established as a precedent and rule of action to be followed now that the war is over. The time has come for the member banks to expect to conduct their regular operations without restoring to the reserve banks, and for discount rates at the reserve banks to be regulated with a view to discouraging instead of encouraging resort to them.

Reserve Banks Should be Liquidated.

The member banks should co-operate with the Federal reserve authorities in efforts to clear the reserve banks gradually of non-commercial loans. It was stated authoritatively last spring that the large life insurance companies of New York City were owing about $75,000,000 to banks on account of their borrowings to take up their subscriptions to the government loans, and lately it has been stated that this indebtedness had been practically all paid. This illustrates what should be done generally, and the bankers should endeavor to bring it about, at least to the extent of relieving the reserve banks.

Moreover, it is time to give warning against the complacent theory that a permanent readjustment of values has been made, and the existing price-level is permanent. Even though the present volume of bank loans is not reduced, it must be considered that the population and business of the country is growing, and that if bank reserves and bank loans remain stationary, or fail to increase in due proportion, there will be a relative reduction of bank credit and a downward price tendency. In short it is time for a general understanding of the fact that the course of inflation made possible by the great additions to our gold reserves and the new powers of our banking system, has been run, and that from this time forward there are definite limitations upon the use of credit. The business of the country must be handled hereafter with a relatively smaller amount of bank credit, if the gold standard is to be maintained, and this means that the price level will tend downward. This does not signify that liquidation will be forced, but that with expansion held in check, and a gradual return to normal conditions in industry, prices will come back into normal relations with the gold standard.

The Provisions of the Esch Railroad Bill.

On November 17th, the Esch Bill, providing for the return of the railroads to private management, and amending the existing Act to Regulate Commerce, passed the House of Representatives by a vote of 203 to 160. Should this Bill become a law certain marked improvement in the machinery of railway regulation will be accomplished. Since 1887 when the original Commerce Act was enacted, pooling of traffic, earnings and equipment has been prohibited. Experience during the war clearly showed that consolidations and poolings are in the interest of better service, and make for economy in operation. By the terms of this Bill the Interstate Commerce Commission may permit consolidation of railroads or the pooling of earnings or equipment. The joint use of terminals proved to be of genuine public benefit during Federal control, and in order not to lose this gain the Commission is further given the authority to require joint or common use of terminals where the public interest may be best served.

The Bill also establishes the supremacy of the Interstate Commerce Commission over state-made rates. In this respect it virtually would write into the law the decision of the Supreme Court in the famous Shreveport Case. Any undue burden upon interstate or foreign commerce is thus forbidden and declared unlawful.

For the settlement of labor troubles, the machinery in vogue before and during Federal control, consisting of equally balanced Boards, is to be continued; and no penalty is provided against strike or lockout. Whether the interests of the public are preserved is questionable since labor questions must be arbitrated if labor wishes, but cannot be arbitrated if labor refuses consent.

The enactment of the Esch Bill will put the control over stock and bond issues exclusively in the hands of the Federal Government. Heretofore the carriers have had many grievances due to the unwarranted exactions of numerous state commissions.

A continuation of the governmental guarantees for six months following the termination of Federal control is promised all roads which file increased rate schedules within sixty days thereafter. A new revolving fund of $250,000,000 is authorized for the purpose of making loans to carriers for certain restricted purposes during the next two years. Such loans are to be made by the Secretary of the Treasury for not exceeding five years at 6 per cent. interest. The security which the roads must offer, however, is to have a paramount lien, similar to a receiver's certificate.

The Rule for Rate Making.

In the September issue of this Letter, we wrote: "Modifications and improvements in the machinery of regulation, necessary as they are, will prove futile unless requisite measures are also taken to make the field of railway enterprise inviting to capital." Those few features calculated to encourage capital which were contained in the Esch Bill as it emerged from committee, were amended out of it before passage. Railway credit depends upon the adequacy of railway revenues. Inasmuch as the old rule for rate making permitted such a low level of earnings as to deteriorate credit, prospective investors in railroad securities will inquire what assurance the Bill offers that revenue will be adequate in the future. The old rule merely provided that rates should be just and reasonable. Representatives of the Interstate Commerce Commission recommended that Congress assume the responsibility for defining reasonable rates and the best authorities in the country on railroad economics urged the committee to embody in the legislation some rule for rate making. As a result, the committee drafted the following:

> "The Commission shall be charged with the duty and responsibility of observing and keeping informed as to the transportation needs and the transportation facilities and service of the country, and as to the operating revenues necessary to the adequacy and efficiency of such transportation facilities and service. In reaching its conclusions as to the justness and reasonableness of any rate, fare, charge, classification, regulation, or practice, the Commission shall take into consideration the interest of the public, the shippers, the reasonable cost of maintenance and operation (including the wages of labor, depreciation and taxes), and a fair return upon the value of the property used or held for the service of transportation."

When the Bill reached the floor, this rule was attacked and defeated, apparently on the ground that it would be favorable to security holders. This leaves the fundamental question exactly where it was before. The effect of taking this

provision out of the Bill was accurately described in the debate by Mr. Denison, one of the members of the House Committee:

"Now, if you strike out this provision of the Bill, you are striking the heart out of it as a measure of constructive railroad legislation. If you strike it out, you are saying to the country that Congress has not the courage and willingness to tell the Interstate Commerce Commission what to do in fixing railroad rates. You are 'passing the buck' back to the Interstate Commerce Commission. That is all there is to it."

How can any investment capital be attracted to the railways when Congress refuses to affirm that it is entitled to a fair return upon the value of the property used or held for the service of transportation?

Repayment of Government Advances.

Another amendment to the Bill is calculated to impair still further the investor's confidence. During Federal control vast sums were spent by the United States Railroad Administration for additions, betterments and equipment, very often without the consent, and in many cases, over the protest, of the corporations. Approximately $1,147,000,000 has been expended on Class 1 roads, of which $370,000,000 was applied to the purchase of new cars and locomotives and $775,000,000 for other additions and betterments. The Government also made advances to the corporations of $220,000,000, which (with the exception of $68,000,000) is in the form of demand loans immediately repayable upon the termination of Federal control.

On the other hand, the Government owes the corporations $885,000,000 for compensation, since it was the policy of the Administration not to pay even those companies having contracts, the full amount of the guaranteed return, but only sufficient thereof to enable them to pay fixed charges and usual dividends. So the roads have received only 54 per cent. of the rental to which they are entitled. Besides this, the Government owes the corporations $304,000,000 for depreciation and retirements, and $65,000,000 on open accounts.

Assuming that the proposed national equipment trust is carried out, the Director of Finance of the Railroad Administration figures that there will be due the Government immediately $898,000,000, and payable immediately to the corporations, $1,225,000,000. As the Esch Bill was drafted it authorized the deduction of $133,900,000 from the amount due the companies and funded $641,000,000 of the amount owed by the companies for a term of years, repayable gradually. But as passed, the Bill requires the Railroad Administration to deduct $415,000,000 from the amounts due the companies. The practical effect of this is to deprive most of the railroads of a large part of their working capital and force them to attempt to borrow in the open market. Those roads which need funds most insistently would doubtless find it hardest to borrow money at any price. What the Government loaned to railroads has been spent in permanent improvements. What the Government owes them is for current services. The injustice of requiring the immediate payment by the railroads was emphasized in a speech of Mr. Pell, of New York, on the floor of the House. He said, "The same idea would be applied to the case of a man who loaned a thousand dollars to a grocer to start in business and then dealt with the grocer. At the end of the month in comes a bill for $25. He could not go to the grocer and say, 'You owe me a thousand dollars and I owe you $25. You pay me $975 and we will be square.' He could not get the money; it has been spent for counters and equipment and it would be impossible to collect it." So this provision of the Esch Bill, as passed, would work such hardship on the vast majority of the railroads as to create extensive embarrassment.

Even if the credit of the railroads was such that they could borrow easily it would be unfortunate to compel them to do so at this time since they should reserve their borrowing power to provide for the new additions and betterments so urgently required. The latest estimate calls for six billions of new capital in the next three years. We are certain that it can never be raised through the provisions of such remedial legislation as the House has passed. Many Congressmen, after denouncing the railroads for being short of equipment, proceeded to vote against the rule for rate making, against the provision for funding existing debt and even against the guaranty of the standard return for six months. It would be interesting to know how these gentlemen think the railroads will be able to keep abreast with the demands of commerce unless they succeed in borrowing the money required for those urgently needed facilities. If the House believes in private ownership it apparently does not believe in making it possible. Private capital will not freely venture into the railway field unless it is assured of fairer treatment than the House of Representatives seems disposed to grant.

Capitalization and Value.

The old suspicion that the railroads are over-capitalized, and that favorable legislation would result in validating large amounts of what the Brotherhoods term "shadow dollars," is doubtless responsible for the adverse vote on those sections of the Bill calculated to assist in the restoration of railroad credit. It is unfortunate that the valuation work undertaken by the Commission was not begun at an earlier date so that the answer to this troubled question could be finally given. We have on previous occasions expressed our conviction that the railroads, considered as a whole, are under, rather than over-capitalized. We believe the final valuations of the Interstate Commerce Commission, when obtainable, will verify this assertion.

Those who wish to discredit railway capitalization usually refer to some half dozen roads in

whose history some financial scandal has occurred. It does not seem to be appreciated that these roads taken together, constitute less than 10 per cent. of the mileage of the United States. That financial reorganizations have, as a rule, eliminated fictitious capitalization, is similarly disregarded. The Chicago, Rock Island & Pacific is one of the roads often referred to in this connection. In the reorganization of the Rock Island, three years ago, $275,000,000 of stock was completely wiped out, and the company is now under-capitalized, the fact being that the par values of its securities are $64,000,000 less than the tentative valuation of the properties. The Pere Marquette is another railroad sometimes mentioned as one wrecked by indefensible financial practices. This company also underwent an extremely drastic reorganization, approximately $26,000,000 of stock being extinguished. The present common stock was issued in the place of one of the former bond issues, and the value of the property, as made by the Railroad Commission of the State of Michigan, about equals the par value of the company's securities. In the case of the St. Louis-San Francisco, reorganization reduced the par value of securities outstanding by $38,000,000 at the same time that $25,000,000 of new money went into the property. The present capitalization has been approved by the Public Service Commission of the State of Missouri.

The hardships of strong and honestly-managed properties are well illustrated by the Baltimore & Ohio. Since 1900 it has greatly increased its tracks, it has in operation 2,453 locomotives instead of 1,053, and 93,000 freight cars instead of 50,000. The money for these and other additions and betterment came from the sale of $300,000,000 of bonds and $107,000,000 of common stock. Yet in 1918, with $174,000,000 of gross earnings, the net was less than it was eighteen years ago when gross earnings were only $43,000,000. Baltimore & Ohio common stockholders are without income from this source and bondholders are evidently nervous, since some issues are selling at prices to yield nearly 10 per cent. Mr. Willard, President of the company, one of the most highly regarded railway executives, wrote a stockholder not long ago, stating that the property was in first class condition when taken over by the Government and was a good property today. He further stated that he looked to the future with confidence providing a rule of rate making such as is evidently contemplated in the Senate Bill, be established.

New Capital Investment.

The old system of regulation stands condemned by the rapid decline of investment in railroads, if by nothing else. Following are the amounts of new capital going into the roads annually prior to the war:

1911	$808,000,000
1912	680,000,000
1913	478,000,000
1914	584,000,000
1915	311,000,000
1916	268,000,000

The urgent demands of the railroads for a constant inflow of fresh capital were well illustrated by Judge Lovett in his testimony before the Newlands Committee two years ago. During the twelve years of Mr. Harriman's administration of the Union Pacific, $119,000,000 was spent for double tracking, new lines and additions and betterments and equipment, and after Mr. Harriman's death in 1909, it was commonly believed that the property had been completely rehabilitated. Nevertheless, in the succeeding eight years the Union Pacific management found it necessary, in order to keep the system abreast of the demands of commerce, to spend $193,000,000, or $74,000,000 more than Mr. Harriman had spent in the preceding twelve years.

Remedial Legislation Must Restore Credit.

Public sentiment is not friendly to Government ownership. The Brotherhoods have withdrawn the Plumb Plan for the present and are urging instead an extension of Federal control for two years, during which time they hope that a change in sentiment may make it possible to secure the adoption of their plan. Congress doubtless has no desire to precipitate Government ownership, but if the people who have money to invest will not put it in the transportation enterprise, Government ownership or the use of Government credit will necessarily follow.

It is not a question of validating "shadow dollars." The question before Congress is whether it will enact such constructive legislation as will prevent the invalidation of legitimate investment, as well as so firmly establish the whole railway enterprise as to afford the prospective investor reasonable assurance of the safety of his principal and income.

This assurance the Esch Bill does not give. The Cummins Bill recognizes that an increase in the earnings of the railroads over the test period is not only warranted but necessary: first, because the railways are being returned to their owners when everything is unsettled and abnormal, and it cannot be determined with certainty what rate of return will enable the carriers to finance themselves; and second, that as money is much less valuable as compared with commodities than it was a few years ago, it would seem only fair that the returns from railway investment should be reasonably advanced. While there are a number of provisions in the Cummins Bill which we hope to see changed, it does recognize the fundamental fact that any remedial legislation dealing with the railroad problem, to be successful, must address itself to the restoration of credit.

The Bond Market.

The November market was an exact reversal of the October situation with weakness exhibited from the beginning of the month in all classes except tax exempt municipals. This weakness was at first attributed to the increase in discount rates by the Federal Reserve Bank and the high rates for call money, but the severe break in the stock market toward the middle of the month soon found reflection in bond prices with steadily declining quotations. There is a general feeling, however, that the action of the Federal Reserve Bank should eventually benefit the bond market as a whole in that funds now being used for stock market speculation may be attracted to high grade bonds which are selling at bargain counter prices. Liberty 4¼s and Victory bonds touched low record prices, the large selling being accounted for by liquidation to cover margins on stocks. Railroad bonds of all classes reached low records while foreign issues were extremely dull. The month closed with continued softness in quotations and restricted trading. The combined average of forty active corporate issues, as reported by the Wall Street Journal of November 24, was 80.30 compared with 82.61 on October 24 and 88.02 on November 24, 1918.

Liberty Issues.

With the exception of Liberty 3½s, which sold at 101 early in the month, the Liberty and Victory market has been extremely weak. As call money rates advanced during the middle of the month there was heavy liquidation of Liberty issues which continued until new low records were reached on November 26 for the Second 4¼s at 92, the Third 4¼s at 94.10 and the Fourth 4¼s at 92, while the Victory 3¾s and 4¾s sold at 99.10. The Third 4¼s at the above quotations yield approximately 5.10%. As is usual during these declines several large transactions with institutions were reported and it is understood that the War Finance Corporation is still absorbing Liberty bonds in fairly large amounts. The report of the Federal Reserve Board shows a substantial reduction in holdings of Liberty bonds, Victory notes and certificates of indebtedness by member banks.

Municipal Bonds.

Municipal issues were the bright exception to the general decline suffered by other classes of bonds during the month. Substantial amounts of new issues were offered and they were promptly absorbed. Even during the week of drastic decline in the stock market municipal values were not materially affected. While fewer issues were offered during the last week of the month nevertheless prices remained firm and dealers seemed to be of the general opinion that there will be little change in municipal prices in any other direction than upward. An indication of the satisfactory volume of business was reflected in the keen competition for new issues; we understand that twenty-five dealers submitted bids at the recent sale of $1,000,000 State of Oregon 4½% Bonds, which were offered by the successful bidder on a 4½% basis. The larger offerings, in addition to this issue, include—State of New Hampshire 4½s, $1,500,000 of which were offered on a 4.20% basis; $1,025,000 Des Moines, Iowa, 5% Bonds on a 4⅝% basis; $2,300,000 Dallas, Texas, 4½% Bonds on a 4.65% basis. The Weekly Bond Buyer has the following comment on the municipal market:

> "With the season for preparing one's income tax report drawing near, investors are thinking more carefully than ever of the extent to which the income from taxable securities is reduced by the tax collector's toll—and are buying municipals or other tax-free issues. And the demand for such bonds is further increased by the purchases of savings banks, which are gradually coming back into the market for something besides Libertys."

Canadian Victory Loan.

The Canadian Victory Loan closed last month was a gratifying success, total subscriptions aggregating $675,000,000. The offering was for a minimum amount of $300,000,000, and all subscriptions are accepted. The loan is in two maturities, the choice optional to subscribers, 5-year bonds due November 1, 1924, and 15-year bonds due November 1, 1934, interest 5½ per cent. semi-annual, principal and interest payable in Canada.

The Dominion of Canada during the war has made the following loans and in addition has floated a loan of $15,000,000 two-year 5½s and $60,000,000 ten-year 5½s in the United States to refund $100,000,000 bonds falling due August 1, 1919, the latter issue having been brought out by a large syndicate of bankers at a price to yield 5.90 per cent.:

	Issue Price
Payable in Canada:	
First War Loan, $51,195,000, 5%, due December 1, 1925	$97.50
Second War Loan, $63,066,300, 5%, due October 1, 1931	97.50
Third War Loan, $92,607,800, 5%, due March 1, 1937	96.00
Fourth War Loan, $540,992,500, 5½%, due December 1, 1922, 1927 and 1937	100.00
Fifth War Loan, $678,585,300, 5½%, due November 1, 1923 and 1933	100.00

In addition, the Dominion issued from time to time War Savings Certificates to a total of $12,661,066, and this amount, together with the war loans and other obligations, brings the total debt of the Dominion up to $1,574,343,041.

All of the above War Loan bonds enjoy a very ready market here in the United States at various prices ranging from a 5.35 per cent. basis to a 6.80 per cent. basis, depending upon the rate and maturity of the loan. Dominion of Canada bonds are very favorably regarded in the United States, by private investors, corporations, and by institutions.

Silver

The silver market has been sensational during the past month. China has been bidding for it insistently and getting practically all of the current production of this country available for export. In 1915, India, which is a great importer of silver bullion, was nearly cut off from supplies by the German sea raiders and in 1916 and 1917 the Indian demands were so large that heavy shipments were made from Chinese stocks, with the result that the latter were much reduced. During the last year the balance of trade in favor of China has been larger than ever and the rise of prices has made necessary an increase of the circulating medium, so that the movement of silver from the ports to the interior has been very heavy. The collapse of Russian currency in the northern part of China has increased the demand for silver in that quarter.

With all of our spare silver going across the Pacific, the London market has been in very light supply and easily influenced.

The coinage rate of our silver dollar, $1.29+ per fine ounce has been passed and a few sales made at or slightly above the coinage rate of the subsidiary coins, $1.38+. In the last few days, however, buying has been light, and the price dropped off to $1.30.

The Treasury has authority under the Pittman act to melt a total of 350,000,000 dollar pieces and dispose of the bullion, and has exercised this authority to the extent of $260,000,000. Its plan has been to hold the other $90,000,000 for conversion into our own subsidiary coin, as the latter was required, but the near approach of the bullion price to the subsidiary coinage rate will induce a change of policy. It would be embarrassing to have our stock of half dollars, quarters and dimes drawn into the melting pot, and useless to make more of these coins only to be melted. Under the circumstances it may be thought good policy to sell some portion of the 90,000,000 dollar pieces for the purpose of holding the price of bullion around present figures.

Increased Demands for Small Coins.

The demands for China and India are not alone responsible for the rise of price. Silver is the pocket money of the whole world, and the rise of prices everywhere has made a demand for more silver coin in circulation. In the United States for the five fiscal years ending with 1914, the purchases of silver bullion for subsidiary coinage amounted to 18,226,414 ounces, an average of 3,645,283 ounces per year. In the five years beginning with July 1, 1914, its purchases have been as follows:

Fiscal year	Fine ounces
1914-15	3,395,763
1915-16	6,545,162
1916-17	6,161,680
1917-18	34,211,368
1918-19	9,122,030
Total	59,436,003
Average	11,887,200

The purchases of foreign governments, so far as reported to the United States mint bureau, in recent years have been as follows:

	1913	1914	1915	1916	1917	1918
	(Fine Ounces)		(Fine Ounces)		(Fine Ounces)	
Great Britain	5,696,271	20,988,358	25,951,612	28,180,084	13,752,993	No report
(Independent of British West Africa and India)						
China	28,626,109	77,499,086	110,294,436	79,765,842	37,806,567	No report
India	58,858,610	18,659,107	5,921,239	75,562,776	95,829,310	148,013,322
France	2,906,555	4,240,649	11,587,532	20,708,938	11,604,359	12,403,927
Japan	2,234,351	1,025,996	1,401,493	2,543,236	67,167,421	7,397,269
Italy	2,171,365	2,789,233	2,448,348	3,178,612	2,950,203	No report

Netherlands—between 4,000,000 and 5,000,000 ounces for the years 1913, 1914, 1915, 1916 and 1917, and 16,500,000 for the year 1918.

A glance at these figures will show that there is no mystery about the rising prices of silver, and it is to be considered further that world production, which in 1911 amounted to 226,000,000 ounces was down in 1916 to 161,000,000 ounces, largely by reason of the disturbances in Mexico.

How fast production will come back cannot be predicted, but a revival of interest in silver mining is reported from the old silver districts of this country and also in Canada. Upon the buying side more definite predictions may be ventured. It is not likely that outside of Asia governments will buy silver for coinage purposes at prices above the present coinage rates. The coinage of silver in this country and in Europe has been for token coins, in which actual metallic value is of little importance. The governments may either reduce the amount of silver in the coins in which case they will melt the existing coins and make more of them, or they will use other metals or even adopt subsidiary paper currency. Italy has just brought out a 50 centime nickel piece, and Great Britain is said to be contemplating the use of nickel or a composite of nickel and copper. The United States nickel piece consists of 75 per cent. copper and 25 per cent. nickel.

A Decline of Commodity Prices Would Relax Demand.

Moreover, it should be considered that the enormous increase in the demand for silver for coinage purposes has been due to the rise of commodity prices, and that unless the rise continues at a similar rate, which is wholly improbable, the demand for silver for that purpose will decline. Once a supply of silver coins sufficient to handle retail trade at the advanced prices is obtained, only enough need be added to cover the natural increase in trade. This is quite different from having the trade volume doubled by higher prices.

How long the present demand for China will be sustained we cannot say, but it is abnormal and doubtless temporary. The trade balance for India has been provided for in part by the action of the British government in releasing the South African gold production. The producers are selling their gold at a premium in London, and the larger part of the weekly receipts have been taken for India.

Although the outlook is not favorable to still higher prices for silver it is likely that the price will be well sustained for some time, and certain that it will not fall below $1 per ounce for many years to come, as the terms of the Pittman act provide that all of the silver dollars melted are to be replaced when silver reaches that price.

The production of silver bullion in the United States is now at the rate of 65,000,000 to 70,000,000 ounces per year. The industrial consumption in 1915 was reported by the Mint Bureau at 22,500,000 ounces, and will be much above that this year. It will be seen that the replacement of 350,000,000, if that amount should be disposed of, would be a slow process, if silver continues to be in normal demand for Asia and for general coinage use.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS NOVEMBER 28, 1919.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Federal Reserve Bank of Gold coin and certificates	8,614	137,374	1,241	21,797	2,303	8,136	24,150	3,312	8,280	130	6,615	13,206	233,348
Gold Settlement Fund F.R. Board	42,327	115,902	25 939	23,996	31,355	22,662	55,765	15 740	11,956	44,348	19,555	27,740	440,286
Gold with foreign agencies	9 906	49,800	10,856	11,127	6,649	4,885	16 148	6,378	3 664	6 513	3,528	6,242	135,696
Total gold held by banks	60,877	303,076	38,036	56,920	40,307	35,683	99,064	25,430	23,900	50,991	29,698	47,348	811,330
Gold with Federal Reserve Agents	63,090	282 877	78 522	105,502	46,923	53,553	247,491	69 100	34,354	38,917	24,996	104 399	1,148,724
Gold Redemption Fund	26,854	25,000	11 664	1,531	12,440	6 896	20,927	6 418	2,379	5,284	3 461	10,733	133 587
Total gold reserves	149,821	610,953	128,222	163,953	99,670	96,132	367,482	100,948	60,633	95,192	58,155	162,180	2,093,641
Legal tender notes, Silver, etc	4 550	49,586	477	837	211	1,217	2,389	4,800	73	311	1,375	199	66,025
Total Reserves	154,371	660,539	128,699	164,790	99,881	97,349	369,871	105,748	60,706	95,503	59,530	162,679	2,159,666
Bills discnt'd: Sec by Govt. war obligations (a)	126 192	753 834	185 580	130,272	83,560	65 630	176,503	49,151	30,999	47,750	29,681	56,878	1,736,033
All other	39,236	107,068	12,684	32,966	14,340	36,541	88 956	24,150	29,455	47,531	15,507	29,742	478,176
Bills bought in open market (b)	33,348	97,021	3,135	64,964	11,810	11,912	80,923	33 638	20,183	10,305	12,803	96,823	495,595
Total bills on hand	198,776	957,923	201,402	227,932	109,710	114,083	265,382	106 939	80,637	105,586	57,991	183,443	2,709 804
U. S. Governm't Bonds	539	1,257	1,385	844	1,235	375	4,477	1,153	116	8,868	3,966	2,633	26,848
U. S. Victory Notes		50				4			3				57
U. S. certificates of indebtedness	22,562	77,684	31,471	25 883	11,869	15,695	40,236	17 366	8,380	14,820	11,225	10,880	288 032
Total Earning Assets	221,877	1,036,914	234,258	254,659	122,805	130,127	410,095	125,458	89,136	129,274	73,182	196,956	3,024,741
Bank premises	1,078	3,994	500	889	491	503	2,936	691	600	402	394	400	12,878
Uncollected Items (deduct from gross deposits)	78 835	249 906	83,495	78,112	85,848	41 665	111,150	70,776	22,968	77,443	60,341	49,085	1,013,426
5% redemption fund against F. R. bank notes	1,072	2,898	1,450	1,112	696	822	1,856	398	206	567	373	655	12,671
All other resources	317	1,340	281	697	751	180	1,087	227	147	506	269	858	6,659
TOTAL RESOURCES	457 550	1,955,586	453 683	500,259	310,272	270,646	896,995	303,290	173,763	304,089	194 275	409,633	6,230,041
LIABILITIES													
Capital Paid in	7,103	22,448	7,873	9,469	4,386	3,406	12,308	4,057	3,060	3,996	3,437	5,458	87,001
Surplus	5,206	32,922	5,311	5,860	3,800	2,805	9,710	2,589	2,320	3 957	2,029	4,378	81,087
Government Deposits	12,692	37,272	7,015	2,470	5,318	4,025	6,971	9,493	3,238	3,043	2,564	4,050	98,157
Due to members reserve account	108,254	787,739	81,472	132,861	66,273	52,853	246,855	62 016	50,308	84,455	59,486	111,662	1,844,434
Deferred availability items	72,753	188,922	90,166	67,506	71,395	39,575	91,131	62,591	19,199	82,163	43,298	37,543	861,436
Other deposits, including foreign Govern't credits	5,912	44,065	6,976	6,019	3,594	2,706	9,659	3,747	2,156	3,637	2,985	7,312	98,798
Total Gross Deposits	199,641	1,057,998	185,623	208,856	146,780	99,159	354,616	137,853	75,101	173,298	108,331	155,567	2,902,825
F. R. Notes in actual circulation	229,638	767,398	223,051	251,011	141,556	148,567	475,062	141,000	87,784	101 749	69,176	229,686	2,852 277
F. R. Bank Notes in circulation, net liability	21,169	56,150	27,908	21,190	11,702	14,703	39,594	15,996	8 006	16,698	9,992	11,305	256,793
All other Liabilities	3,603	18,670	3,097	3,573	2,018	2,096	5 705	1,786	1,492	2,401	1,308	3,579	50 058
TOTAL LIABILITIES	457 550	1 955,586	453,683	500,259	310,272	270,646	896,995	303,290	173,763	304,089	194 275	409,633	6,230 041

(a) Total Reserve notes in actual circulation, 2,852,277.
(b) Bills discounted and bought: U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,701,928; 16—30 days 234,344; 31—60 days 509 244; 61—90 days 318,111; over 90 days 234 209. Total 2 997 836.
Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 50.0%. Ratio of gold reserves to F. R. notes in actual circulation after setting aside 35% against net deposit liabilities—59.8%.

National City Bank's Statement of Condition.

The National City Bank's latest Comptroller's statement, issued as of November 17, shows resources of more than one billion dollars. This is the first time that a bank in the Western Hemisphere has shown assets above the billion mark. With its branches, this bank's assets were $1,027,938,114.31 on November 17. Those of the International Banking Corporation, which is owned by The National City Bank of New York, were $109,084,840.61. Thus the combined resources of the two institutions amount to $1,137,022,954.92.

DISCOUNT RATES

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to Nov. 24, 1919.

Federal Reserve Bank	Discounted bills, including member banks' collateral notes, maturing within 15 days, secured by			Discounted bills maturing within 16 to 90 days, secured by			Trade Acceptances (a) maturing within		Discounted bills, secured otherwise than by Government war obligations, also unsecured (b) maturing within			
	Treasury certificates of indebtedness bearing interest at		Liberty bonds and Victory notes	Treasury certificates of indebtedness bearing interest at		Liberty bonds and Victory notes	15 days	16 to 30 days	15 days including member banks' collateral notes	16 to 60 days	61 to 90 days	91 to 180 days (agricultural and live stock paper)
	4¼ per cent	4½ per cent		4¼ per cent	4½ per cent							
Boston	4¼	4½	4½	4¼	4½	4½	4½	4½	4¼	4¾	4¾	5
New York	4¼	4½	4½	4¼	4½	4½	4½	4½	4¾	4¾	4¾	5
Philadelphia	4¼	4½	4½	4¼	4½	4½	4½	4½	4¾	4¾	4¾	5
Cleveland	(c) 4¼	4½	4¾	4½	4½	4¾	4½	4½	4¾	4¾	4¾	5¼
Richmond	4¼	4½	4½	4¼	4½	4½	4½	4½	(d) 4¾	4¾	4¾	5
Atlanta	4¼	4½	4½	4¼	4½	4½	4½	4½	4¾	4¾	4¾	5½
Chicago	4¼	4½	4½	4½	4½	4½	4½	4½	4½	4¾	4¾	5½
St. Louis	4¼	4½	4½	4¼	4½	4½	4½	4½	4½	4¾	4¾	5½
Minneapolis	4¼	4½	4½	4¼	4½	4½	4½	4½	4½	4¾	5	5½
Kansas City	4¼	4½	4¾	4¼	4½	4¾	5	5	5	5	5	5½
Dallas	4¼	4½	4½	4¼	4½	4½	5	5	5	5	5	5¼
San Francisco	4¼	4½	4½	4¼	4½	4¾	4½	5	4½	5	5	5½

(a) Rates also apply to bankers' acceptances discounted by the New York and Cleveland banks.

(b) Rates on paper secured by War Finance Corporation bonds, 1 per cent higher than on commercial paper of corresponding maturity.

(c) Rate of 4¼ per cent on member banks' collateral notes; 4½ per cent on customers' paper.

(d) Rate of 4½ per cent on member banks' collateral notes; 4¾ per cent on customers' paper.

Note 1—Acceptances purchased in open market, minimum rate 4 per cent.

Note 2—Whenever application is made by member banks for renewal of 15-day paper the Federal Reserve Banks may charge a rate not exceeding that for 90-day paper of the same class.

THE NATIONAL CITY BANK

OF NEW YORK

AND BRANCHES

Condensed Statement as of November 17, 1919

ASSETS

CASH on Hand, in Federal Reserve Bank and due from Banks and Bankers and United States Treasurer	$303,533,530.31	
Acceptances of Other Banks	36,509,479.94	
U. S. Treasury Certificates	34,439,500.00	$374,482,510.25
U. S. Bonds	$15,025,287.55	
Loans and Discounts	529,199,987.74	
Bonds and Other Securities	45,686,256.66	
Stock in Federal Reserve Bank	1,800,000.00	591,711,531.95
Banking House		5,000,000.00
Customers Liability Account of Acceptances		52,598,175.69
Other Assets		4,145,896.42
	Total	$1,027,938,114.31

LIABILITIES

Capital, Surplus and Undivided Profits	$ 80,012,032.52
Deposits	772,817,335.46
Reserve for Expenses, Taxes and Interest Accrued	6,131,065.21
Unearned Discount	2,302,049.75
Circulation	1,413,195.00
Foreign Bills of Exchange Sold	27,820,369.89
Due to Federal Reserve Bank on United States Gov. Securities	54,000,000.00
Due to Branches	14,221,825.93
Acceptances Sold with our Endorsement	3,403,208.23
Acceptances, Cash Letters of Credit and Travelers' Checks	54,720,289.83
Other Liabilities	11,096,742.49
Total	$1,027,938,114.31

Head Office: 55 Wall Street, New York

THE NATIONAL CITY BANK
OF NEW YORK

[illegible]

Condensed Statement as of [illegible]

ASSETS

[illegible]

Total [illegible]

LIABILITIES

Capital, Surplus and Undivided Profits [illegible]

Deposits [illegible]

[illegible]

Total [illegible]

Head Office 55 Wall Street, New York